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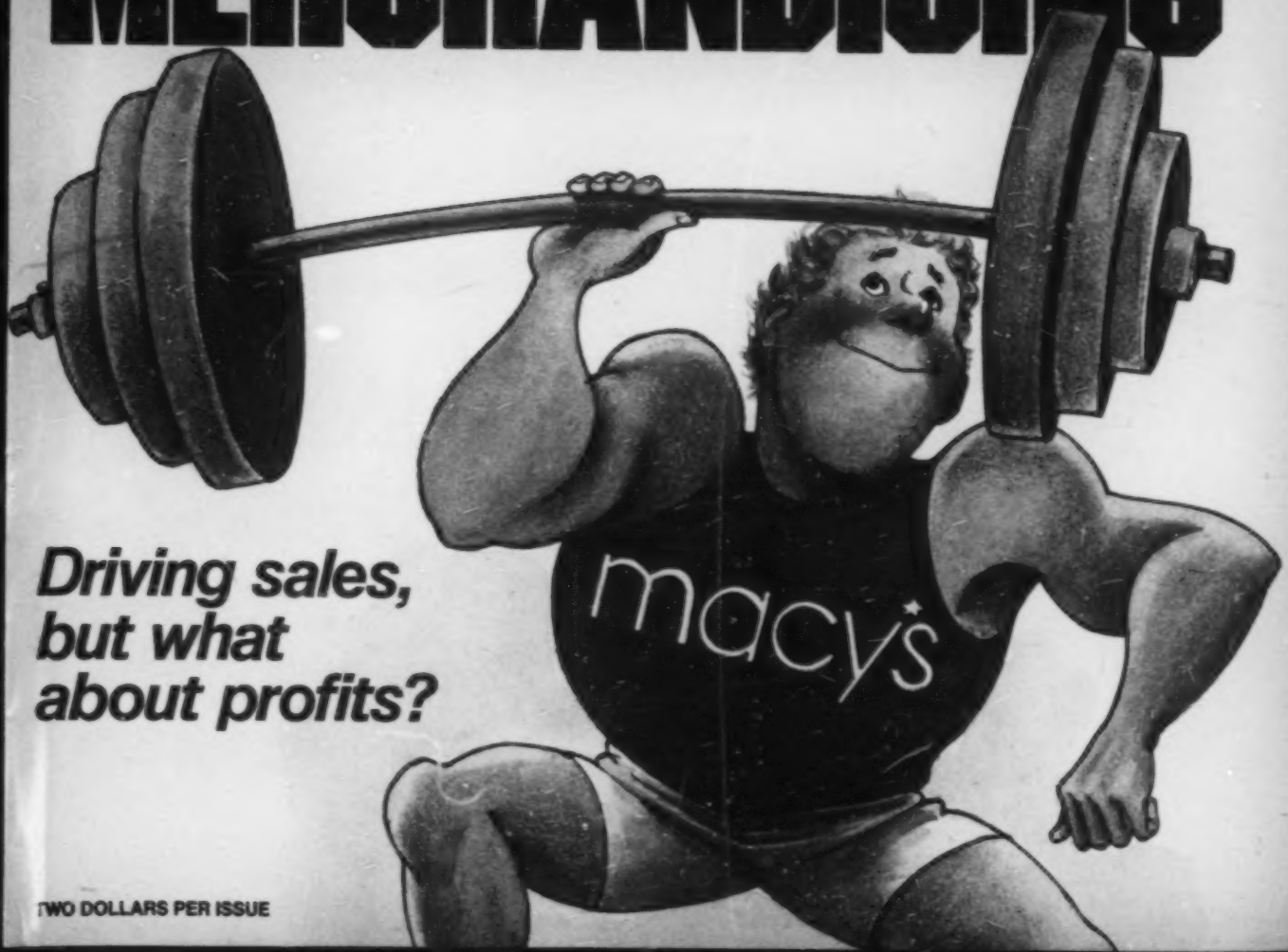
Marketpower: Top 20 departments
How shoppers rate MainStreet

Chain Store Age

GENERAL MERCHANDISE TRENDS

July 1985

POWER MERCHANDISING



Driving sales, but what about profits?

TWO DOLLARS PER ISSUE

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HARD GOODS SHOPPERS PROVE MOST

DEMANDING

A recent survey of consumers finds workmanship and price the two most important elements for shoppers when buying hard or soft goods.

Shoppers polled showed little store loyalty—wide assortment and competitive pricing, however, were important.

America is more demanding when it shops for hard goods than when it purchases soft goods. But no matter what consumers buy, be it electronics or women's apparel, workmanship is the most important element in the buying equation, outdistancing even price, according to a *Chain Store Age*/Leo J. Shapiro & Associates survey of consumers.

Of the six product categories surveyed, electronics proved the area where shoppers were most demanding. Six of the dozen criteria considered before making a purchase were voted more important in electronics than in major appliances, housewares, furniture, men's wear and women's wear.

Workmanship, the highest rated characteristic, actually proved most important to furniture buyers. The looks of the goods also scored high among furniture shoppers, higher, in fact, than consumers rated looks for apparel.

Among the 12 characteristics, price was rated second most important, behind workmanship. Price was considered most important by major appliance buyers. These same shoppers rated guarantee of most importance in major appliances, reflecting the high ticket nature of that business and the desire of consumers to have some reassurance from either the vendor or the retailer.

On a scale of 1 to 9, with 1 being "not important," looks, workmanship, price and guarantee all ranked in the middle of the scale, achieving mean ratings which averaged from a high 5 to a low 4. Of much less importance to shoppers were such elements as specific store, brand name or assortment.

Of these bottom three criteria, specific brand names and a wide assortment were rated as more important than the type of store that carried the goods, and less important than the shoppers' ability to buy the product for less. This indicates that shoppers feel they have little reason to be loyal to a specific store. Rather, they look to buy an item at any store that offers them a wide assortment and is price competitive.

Workmanship key for both men and women

	Men	Working women	Working women with kids	$40k + income	$20-$39K	Under $20K	Age under 30	30-39	40+
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Price	5.30	5.41	5.43	5.45	5.36	5.10	5.41	5.44	5.21
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Looks	4.75	4.88	4.78	4.61	4.87	4.83	5.14	4.67	4.75
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Guarantee	4.51	4.81	4.97	4.60	4.72	4.55	4.60	4.71	4.72
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Brand name	3.68	3.75	3.78	3.59	3.65	3.90	3.74	3.52	3.71
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Country of origin	3.51	3.22	3.31	3.22	3.58	3.39	3.00	3.35	3.68
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Packaging	2.56	2.58	2.53	2.38	2.62	2.82	2.62	2.54	2.65

Average rating of importance on a scale of 1 (not important) to 9 (very important).
Source: Chain Store Age/Leo J. Shapiro & Associates

Because of major appliances' high tickets, shoppers look for product guarantees.

Electronics shoppers are most demanding

	Major appliances	Furniture	Housewares	Electronics	Men's wear	Women's wear
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Price	5.69	5.39	5.56	5.24	5.26	5.30
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Looks	4.36	5.17	4.36	4.71	4.89	5.13
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Guarantee	5.34	4.87	4.78	4.91	4.28	4.62
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Brand name	3.95	3.61	4.83	3.84	3.79	3.58
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Country of origin	3.52	3.13	3.59	3.57	3.36	3.16
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Packaging	2.42	2.45	2.64	2.84	2.56	2.67

Average rating of importance on a scale of 1 (not important) to 9 (very important).
Source: Chain Store Age/Leo J. Shapiro & Associates

At the same time, quality of advertising was a very low factor in determining which product was bought, and packaging was the least important criteria (of the 12 named) in choosing a specific item.

Several discount chains such as K mart are upgrading packaging to help improve their image as a "quality" store. In home textiles, K mart specifically asks manufacturers to package goods in reusable zippered vinyl bags. "The customer has a better perception of value when the product is in a bag that's not torn up or damaged," says Marilyn Gill, senior buyer. But according to the Shapiro study, how well the product is packaged will not sell the customer if other criteria, like price and workmanship, are not met.

In addition, stores which are planning ad campaigns or flagging merchandise as "made in the U.S.A." shouldn't expect these promos to result in any big increase in sales. Country of origin rates moderately low as a reason to choose an item. It is of most importance to electronics shoppers—and many of those may specifically be buying Japanese-made products because of Japan's dominance in this category.

Shoppers in the market for men's or women's wear do not appear to judge merchandise in these soft lines as carefully as they do in hard lines. Material, for example, was most important to housewares shoppers, and next most important to those looking at major appliances. Women's wear placed third in the ranking of material, followed by men's wear.

Men's wear purchasers were slightly more likely to be swayed by brand names and advertising than those shopping women's wear. But the importance of brand names in apparel was much less obvious than in hard lines. Of the six product categories broken out, brand name was least important in women's wear.

Although men's and women's wear retailers and manufacturers believe customers are looking more for quality apparel today, this survey does not seem to back up that assumption. While workmanship is important to apparel shoppers, so is price and the ability to buy for less. Perhaps the soft lines shopper's definition of quality is a bit less demanding than the one he or she uses for hard lines like electronics.

Working women—one group that has been touted as quality-conscious—are less likely to buy an item for its workmanship than are men or working women with kids. They are more likely to buy a brand name, or choose an item for its material or looks.

Working women with kids are the shrewdest shoppers, probably because budgets are tighter. These women look for guarantees, workmanship, good price and the ability to buy for less. Men appeared to be most swayed by factors outside of the item itself, such as advertising,

shopping a specific store, and country of origin.

Stores catering to the new generation of shoppers, those under 30, may have the most problems with shopper loyalty. These customers are not as particular about goods as older customers who have lived through hard times. Shoppers under 30 are more concerned about brand names, assortment and looks than older shoppers. Shoppers in the oldest age group, over 40, look at the store, the packaging, the material and the guarantee. Customers in the 30-39 age range show the most typical shopping pattern among those surveyed. This group looks at workmanship, followed by price and the ability to buy for less.

Customers with the highest incomes, over $40,000, are quality shoppers, looking for material, workmanship and good prices. Shoppers with limited incomes, under $20,000, weigh more factors in deciding on a purchase. These shoppers look at packaging, brands, advertising, stores, the ability to buy for less and the assortment offered. Although they have less money to spend, this group is more difficult to please than higher-income shoppers.

There is some regional variation in the strength shoppers give to the 12 criteria. Surprisingly, of the five markets surveyed, Los Angeles shoppers are the most likely to seek quality goods. Customers on the West Coast believe workmanship, material and looks are important.

Philadelphia residents are the most price-conscious of the five markets. These shoppers rate price and the ability to buy for less as important factors in choosing an item.

Chicago-area shoppers appear to be the most likely name droppers, not Angelenos, as expected. High on Chicago shoppers' checklists are brand names, advertising, specific stores, guarantees and packaging.

Customers in Dallas and Atlanta appear to be the most well-rounded of the group surveyed. They tend to weigh all 12 factors more equally than do those in the other three markets. Price and workmanship, for example, are of equal value to Atlanta and Dallas residents. Workmanship, however, was more important than price to Los Angeles and Chicago shoppers. Philadelphia shoppers weighed price more heavily than workmanship. □

—Marsha Parker Cox

***Material was judged most** important to housewares' shoppers.*

Chicago consumers are most brand, store conscious

Criteria	Chicago	Atlanta	Dallas	L.A.	Phila.
Workmanship	5.37	5.36	5.43	5.71	5.56
Price	5.23	5.26	5.43	5.28	5.45
Material	5.06	4.96	5.06	5.38	5.06
Looks	4.81	4.74	4.81	4.93	4.89
Buy for less	4.76	4.66	4.76	4.91	5.01
Guarantee	4.82	4.64	4.81	4.50	4.82
Assortment	3.85	3.86	3.96	3.78	3.88
Brand name	3.97	3.73	3.81	3.42	3.58
Store	3.74	3.74	3.86	3.45	3.65
Country of origin	3.42	3.36	3.24	3.26	3.57
Advertising	3.16	3.07	3.14	2.72	2.88
Packaging	2.86	2.57	2.66	2.59	2.52

Average rating of importance on a scale of 1 (not important) to 8 (very important).
Source: *Chain Store Age*/Leo J. Shapiro & Associates

Top 20 departments

Department	1984	1983	% change
1. Automotive	$ 61,000,000,000	$ 57,000,000,000	+ 6.9
2. Hardware	68,480,000,000	62,510,000,000	+ 9.4
3. Women's wear	49,500,000,000	46,900,000,000	+ 5.7
4. Consumer electronics	34,000,000,000	28,000,000,000	+21.4
5. Lawn & garden	23,700,000,000	20,200,000,000	+17.8
6. Nonelectric housewares	32,100,000,000	29,100,000,000	+10.3
7. Stationery	29,700,000,000	28,200,000,000	+ 5.3
8. Men's wear	23,100,000,000	21,800,000,000	+ 6.0
9. Footwear	21,000,000,000	20,500,000,000	+ 2.4
10. Home textiles	18,300,000,000	16,600,000,000	+10.2
11. Cosmetics/H&A	18,100,000,000	16,200,000,000	+11.8
12. Electric housewares	17,300,000,000	15,700,000,000	+10.2
13. Children's/infants' wear	16,000,000,000	15,600,000,000	+ 2.6
14. Sporting goods	14,900,000,000	13,500,000,000	+10.3
15. Toys	12,100,000,000	10,400,000,000	+16.3
16. Photo	10,900,000,000	10,400,000,000	+ 4.8
17. Accessories	15,700,000,000	13,000,000,000	+20.7
18. Hosiery	5,400,000,000	4,800,000,000	+12.5
19. Sewing	4,600,000,000	4,600,000,000	N/C
20. Hobby/crafts	3,800,000,000	3,700,000,000	+ 2.7
Totals	$389,530,000,000	$362,000,000,000	+ 7.6

Total industry sales including specialists, drug stores and supermarkets.
N/C = No change.
Source: *Chain Store Age* research

SALES: $10.7 BILLION

Buyers predict earrings, bangles and beads will be big sellers this year.

Accessories' sales span seasons

The impact of teen idols on the accessories category has boosted sales of sunglasses and fashion jewelry.

The moment rock star Prince flashed his gloved hand on TV or Madonna donned a pair of Ray Bans, retailers noticed a flurry of sales activity in both categories.

Throughout the accessories category, the influence of teen idols helped stir up business. Spurred by strong volume in watches, sunglasses, gloves and jewelry, accessories sales climbed 20% in 1984 to a record total of $10.7 billion.

Merchants were especially pleased to see accessories transformed from a seasonal to year-round business. Sunglasses, for example, now sell almost equally well in the winter as summer. Retailers are reacting to the stronger sales volume by enlarging the selections. On the whole, the accessories category is a retailer's favorite because it provides solid profits (margins average 40% and up) without huge space or inventory commitments.

A 35% leap in sales made sunglasses the fastest-growing segment of the accessories classification. Overall, sunglass sales surpassed $1 billion last year. Department and discount operators claimed 40% of all sales.

The big styles during 1984 were flat brows, cat eyes, preppy looks and large wraps in bright colors, white or black. Neons were passé for department stores but dynamic for discounters such as Gold Circle, Woolworth and K mart.

For 1985, senior buyer Larry Irving at K mart predicts frameless, bent temple and granny style glasses will command the fashion segment of the business. K mart is one of several chains planning to upgrade sunglasses and promote them more during 1985 than 1984.

Many chains, such as Gold Circle will improve the department look by creating boutiques. The Broadway, according to buyer Syd Fry, will bolster its business with designer frames carrying price tags as high as $65. On the average, department stores now report carrying eight or nine brands. Discounters typically house four or five lines.

Watches and jewelry lagged just behind sunglasses in sales growth during 1984. The watch category was fueled by the dynamic entrance of Swatches and other colorful sport watches.

Retailers who could not get the $30 Swatches turned to similar items such as Armitron's Awatch or private label knockoffs. Sears is currently "blowing out" the Armitron Awatch while Gold Circle has big plans for its own imported fashion watch priced at $10.

A shift from bright colors to naturals boosted sales in the $4.6 billion jewelry area. According to Ed Kovatch of Accessories Associates, increased sales of naturals and ivory tones produced incremental business on top of volume generated in bright colors.

ALCO and T.G. & Y. buyers also mention promising sales of twists of beads, plastic bangle bracelets and "shoulder duster" earrings. During 1985, buyers predict earrings will continue to be a sought after item.

"Hair styles are shorter and that always means better earring sales," confirms Irving at K mart. K mart also plans to enrich its mix with more 10 karat rings, he adds.

Sales in the other accessories areas—hats, belts and men's accessories—remained flat during 1984. Most retailers explain the soft sales by pointing out that 1984 did not produce a fashion role model. "We did not have a Lady Di to increase hat sales," one buyer concludes. □

Auto specialists in passing gear

A few years down the road, mass merchandisers may be forced to offer the same services as the specialists.

Auto parts specialty stores have learned the mass merchandising strategies needed to expand their market share, and the discount stores are feeling the impact on their sales.

Overall, mass merchandisers are experiencing real growth of just 2% to 3% annually in their automotive departments, with inflation raising 1984 growth to 6%. Retailers expect similar performances in 1985.

Interior dress up items turned in another strong year in 1984 and should continue to be strong throughout this year. DIY products proved inconsistent, with Detroit getting some of the blame for installing ever-more sophisticated systems that are more difficult for consumers to replace themselves. Waxes and polishes are not moving well because of the continuing proliferation of new products each year that confuse shoppers.

While the combination of strong new car sales and the longer life of older cars could have added up to increased sales in the automotive department, in most cases they did not. Instead, retailers continue to feel the impact of national and regional auto specialty stores which combined discount store merchandising strategies with personal service and broader assortments to boost their own sales. The five year/50,000 mile warranties on new cars have helped dealers hold on to their small share of sales.

As always, there are exceptions to the rule of slow growth, and in this case it is the strong results posted by T.G. & Y. The chain achieved stronger 1984 sales and expects to repeat that performance in 1985 with sales growth in excess of 7% because of an expanded mix, bigger and better displays, and a highly promotional approach.

A T.G. & Y. spokesman said sales of interior dress up items were "excellent," and reported a "triple digit increase" in seat cover sales as the result of a broader assortment and greater sensitivity to changing fashions and tastes.

The spokesman explained, "We haven't done anything unusual, but the management is automotive-oriented." The stores added a new floor mat display, and space for oil was expanded. Some products were relocated to promote cross-merchandising, with excellent results.

Sears' experience with automotive products in 1984 was good, but very different from its competitors. DIY sales that were soft for most others were strong for Sears because of a wider assortment and improved product packaging. Waxes and polishes were strong, and interior dress up products are going through a slight downturn this year.

ALCO's success pattern mirrors that of the industry, with strong dress-up sales and soft sales in DIY and polishes. A spokesman for the chain views the growing presence of auto parts stores as a major factor in the marketplace. He also notes the interest large drug store chains are showing in automotive products, as some reduce sku's of their traditional products to make room for higher-margin automotive products.

Some retailers see a turning point in the industry within five years, at which time mass merchandisers may be forced to respond to the specialty stores' challenge by either scaling down their mix and their expectations, or offering the same assortment and personal service as the specialists. □

Do-it-yourselfers with older cars have not translated to strong parts sales.

SALES: $68.4 BILLION

DIY still pushing hardware sales

Young, affluent professionals are proving avid do-it-yourselfers, prompting growth in hardware.

Although it is not as flashy a business as consumer electronics, photo or high-end housewares, hardware is being driven by some of the same forces which shape these other markets. Young, affluent professionals, many of whom have entered prime family rearing years, continue to prove avid do-it-yourselfers, and their enthusiasm has encouraged predictions that the DIY segment of hardware will grow an average of 9% a year for each of the next five years.

To zero in on that business mass marketers continue to reshape their hardware presentations, striving for a clean, fashionable look and clarity in displays. In fact, if there was a major story in hardware last year it was the rapid movement of major chains to completely planogrammed departments and mass market packaging.

The emphasis on presentation is evident at the largest hardware retailer, Sears. It has upgraded its packaging on hand tools with photographic panels describing the uses of each product and its special trade-up features. The chain also recently handed out an award to one of its hardware vendors, Sta-Rite, for a Store of the Future display of water pumps which can be adapted easily to any of its variously sized units.

Mass market-oriented packaging has become common. Mortell, a manufacturer of weatherstripping, restyled its packages to include application photos and suggested uses for its products. The company's new look and new displays are aimed at allowing discounters, drug stores and supermarkets to get into the market without a major inventory investment.

Rivaling the new emphasis on presentation is the growing importance of imports in certain segments of the category. Imports now account for about 45% of sales in hand tools, power tools and basic hardware. That is up from 35% two years ago. Mass marketers have fueled that rise. They account for 25% of all foreign hand tools sold in this country.

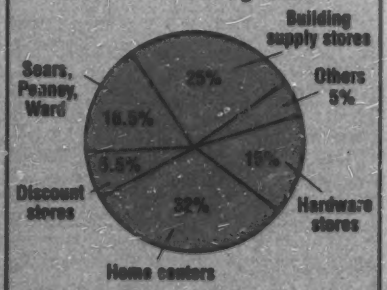
Rising prices have created this surge in imports. In the last four years the price of the average hand tool has nearly doubled to between $8 and $10.

The industry continues to hope that innovations will spur the power tools category, although sales remain flat. The business is still transacted principally around Christmas and Father's Day, and the replacement market which has been anticipated for several years has failed to materialize.

Still, buyers hold out hopes for cordless drills, even though sales are building slowly. Many mass marketers now carry one cordless model.

"Sales are picking up, but I feel it's still a year or so away from being a real good item," says Tom Swartz, hardware buyer at Duckwall-ALCO. □

Market share by units



Source: *Chain Store Age* research

Productivity breakdown

	Dept. stores	Big 3	Mass merch./ variety
Sales per square foot	$124	$217	$181
Annual turnover	1.7	3.7	2.6
Gross margin	34%	38%	32%

Source: *Chain Store Age* research

Growth areas

- Paints and accessories
- Cordless power tools
- Imported hand tools

SALES: $18.3 BILLION

In towels, units have been strong, but falling prices hurt solid color sales.

Naturals fan cooling textile sales

Slow sales in late 1984 carried over into '85, making it a difficult spring for home textiles merchants.

Home textiles averaged 10% sales growth in 1984, despite the tough year overall for retailing. Sales took off in the first and second quarters but, unlike past years, fizzled out in the third and fourth quarters.

Slow sales in late '84 carried over into '85, making it a difficult spring for home textile merchants. Still, retailers are hopeful they will be able to recapture consumer attention and grow home textiles 8% to 10% this year.

The presence of natural fibers, in everything from bed to table linens, will fan the cooling embers. In fact, some retailers are making the most of consumer interest in these fibers by promoting such themes as "The Natural Bed" and just "cotton."

"There's a big push for cotton and wool," says Stephen Ritch, blanket buyer for May Co. Calif. "Customers like the naturals . . . they are perceived as quality."

Natural fibers are available in a growing number of products, particularly in the bed and bath categories. Retailers are padding margins slightly, as well as increasing volume, with higher cotton-content sheets in both wovens and flannels.

This fall, natural fibers should continue to boost blanket sales, a category in which units have been relatively flat and dollars have been down due to price cutting. Retailers plan to carry over the wool emphasis into throws and hope consumers respond enthusiastically at the cash registers.

Other bedding classifications to add natural fibers merchandise include mattress covers and pillows. As consumer awareness grows, retailers expect these items will stir the basics business.

Waterbed sheets is another classification gaining momentum. Better styling from smaller suppliers, in addition to the entry of some big mills have provided merchants with a broad selection. Some better department stores are aggressively seeking the business promoting this merchandise in catalogs and ads to pump up sheet volumes.

In towels, units have been strong, but like sheets, falling prices have hurt dollar gains, especially in the solid color business. During 1985, retailers expect the soft towel business to continue to dry up. Jacquards, on the other hand, will grow stronger but will remain a small part—less than 10%—of towels.

Shower curtains, bath rugs, and accessories all helped stabilize margins for the bath category. Shower curtains profited from the influx of new styling in vinyls as well as the higher content of cotton in the fabrics.

Retailers are benefiting in bath rugs from the glut of suppliers, giving merchants the edge in price negotiations. However, stores must provide a well-rounded assortment in a neat and cared-for display in order for bath rugs to be a significant, profitable business.

In table linens, tablecloths are making a comeback. New vinyl designs encourage shoppers who were previously disillusioned with vinyl styling to make purchases. Moreover, consumers are doing more formal dining, which includes increased usage of lace and embroidered tablecloths.

Curtain and draperies, too, continue to improve as a category. Country looks such as priscillas still remain quite popular and retailers note more movement in tiers.

Under hard treatments, pleated shades and microblinds have held their own. However, some merchants report a downtrending in all hard treatments as a direct result of the better curtain and drapery business. □

Productivity breakdown

	Dept. stores	Big 3	Mass merch./ variety
Sales per square foot	$75	$85	$90
Annual turnover	1.9	2.2	2.6
Gross margin	41.1%	36.9%	34.1%

Source: Chain Store Age research

Growth areas

- Natural fibers
- Vinyl tablecloths
- Bath rugs

Electronics posts another record

More than half of the electronics industry's growth came from the phenomenal success of the VCR.

For the ninth consecutive year, consumer electronics turned in yet another record performance. Retail sales grew 21.4% to $34 billion in 1984. Estimates for 1985 indicate a slower growth rate, 3%, but the industry should turn in at least one more record with retail volume topping $35 billion.

More than half of the industry's growth last year came from a single product—the video cassette recorder. Over seven million VCRs were sold in 1984, and estimates for 1985 indicate that 10 million to 12 million units will move through stores before year's end.

Looking to jump on the bandwagon, South Korean and Taiwanese vendors have entered the market. On the retail side, traditional electronics merchants will also find new players. Toys "R" Us, for one, has repeatedly made known its desire to sell low-end VCRs—if they can get product at the right price.

Not surprisingly, blank video cassette sales also rose to a record high. Over 90 million blank tapes were sold last year, a 42% hike over 1983, but heavy promotion kept dollar volume to a 13% increase. The year saw traditional film vendors, such as Kodak, Polaroid and Konica, entering the magnetic market, attempting to grow out of the maturing film business.

As the blank tape market explodes, however, channels of distribution are shaking. Grocery, drug and variety stores are picking up share this year—primarily at the expense of A-V specialists.

Color television, which already enjoys a 91% household penetration, turned in its best year in the history of TV. Sales grew to over 16 million units, up from 14 million in 1983. This year's volume should run even with 1984, with dollar volume slipping slightly.

Even audio proved exciting last year. Most of the attention centered on the compact disc player, where sales took off to nearly a quarter million units as prices dropped to under $300 just in time for the Christmas selling season. Projections for 1985 show that sales for CD players will nearly triple this year.

Though A-V specialists and department stores took the lion's share of the CD player market in 1984, price drops have tempted both Wal-Mart and K mart to test the category in a number of outlets.

By Christmas 1985 industry watchers expect retail prices for some models to drop to under $175. Razor thin margins at that price point, however, might limit retailers' current enthusiasm.

While CD players basked in the limelight, rack stereo sales quietly doubled in 1984, jumping from under a half million units in 1983 to over one million last year. Dollar volume leaped 150%. Sales in 1985 should increase another 20% over last year's record.

After posting a 23% increase in 1983, boom box sales leveled off last year, gaining a modest 6%. For 1985 volume is expected to show an equal increase to 28.7 million units, up from 26.9 million in 1984. Portable headset player sales will hold even at about 19 million units.

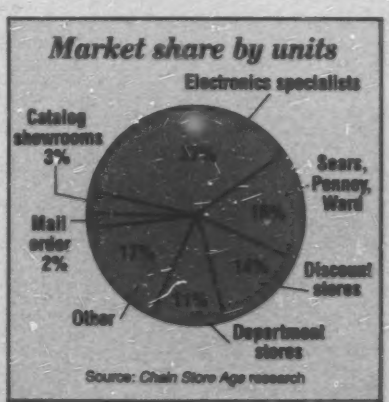
Telephone sales grew 31% to 22.6 million units in 1984, but the increase still found the category performing below plan for many retailers. K mart telephone sales were up 15%, considerably below its original 25% forecast.

Computers proved the year's biggest disappointment, with sales for home machines actually dropping 4%. Software volume, however, turned in its first $1 billion year (see related story).

As the pace of electronics sales slows in 1985, manufacturers are looking to grow by entering new markets. Sony is conducting tests with Wal-Mart-operated Sam's Price Club and Denver-based wholesale club Pace Co. Sony also introduced its first line specifically designed for the mass market at January CES. Emerson and Sanyo, on the other hand, have expanded their lines at the high end to tap both A-V specialists and department stores. □

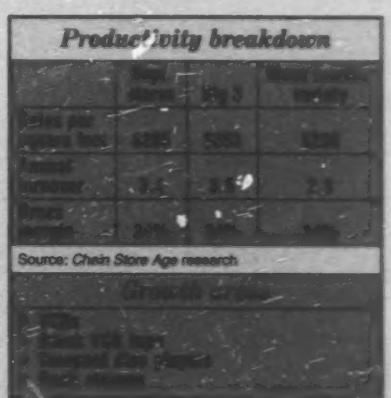
Boom box sales leveled off, gaining a modest 6% last year.

Market share by units



Source: *Chain Store Age* research

Productivity breakdown



Source: *Chain Store Age* research

SALES: $33.7 BILLION

A growing group of consumers is buying comfortable outdoor furniture.

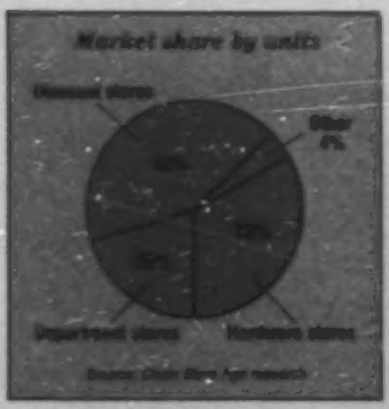
High-end barbecues catch on

Retailers see growth in lawn and garden departments, particularly gas grills and mesh furniture.

Lawn and garden departments are reaping the benefits of product lines that appeal to a growing group of consumers who enjoy outdoor cooking and value comfortable outdoor furniture.

Retailers see these preferences expressed by the 24-to-44 age group in strong overall growth in lawn and garden department sales, especially in gas grills, covered charcoal grills, and wire mesh (or grid pattern) furniture. These shoppers are willing to spend more on products that meet their requirements.

During 1984, average growth in sales was 18%, with the same results projected for this year. Department stores see some of their customers shopping for $300 gas grills in discount stores because the same brands are offered for less.



Discount stores, recognizing that higher-end merchandise now fits in more comfortably with their lawn and garden mix, are moving up in price points, without having yet found the ceiling on how high they can go in quality and price.

Angelo Bianco, vp/hard lines for Jamesway, says the chain has been moving up in $40 to $50 increments to higher ticket items in barbecues for the past several years. Barbecue sales continue to be "sensational," says Bianco, as are sales of wire chairs. Web furniture is more stable, and redwood has slowed, but the wisdom of the chain's decision to skew the department's mix toward lifestyle products and away from garden products has been proven.

Despite less space for garden products, they continue to perform very well, as lawnmowers and garden tools post good gains. The electronic bug killers that proved so popular last year are off to a slower start in 1985, but as Bianco points out, the buying season for that product arrives with Father's Day.

Zayre continues to add higher ticket grills to its mix and is enjoying great success—particularly with gas grills. Patio furniture sales have been good, but some styles in the mix are "marginally off our sales plan," says Nils Pederson, merchandise manager/lawn and garden. However, wire mesh furniture is producing significantly increased sales on top of similar increases from the previous year.

Pederson says garden products have been strong, especially hoses and sprinklers. Electronic bug killers are posting moderate growth over last year.

A spokesman for the Barbecue Industry Association says barbecue sales continue to post solid gains because of the value consumers place on the taste of barbecued food and their enjoyment of cooking outside.

This consumer group also wants the cooking experience to be convenient, thus the popularity of more upscale barbecues, easy-cleaning features, labor saving accessories, and greater use of the barbecue for everyday cooking.

With the emphasis on taste, the industry is having trouble keeping up with the demand for wood chips and chunks that add flavoring to meat. The current favorite is mesquite. □

SALES: $10.9 BILLION

Low-end cameras and accessories remain problematic for mass marketers.

Photo sales good, margins tight

Competition among all levels of retailing for photo business has meant strong sales, but at low prices.

The most pressing question facing general merchandise retailers who remain committed to photo/camera is this: Are there profits enough to satisfy any but low-margin oriented stores?

There is certainly plenty of action in photo/camera, if "action" can be defined as sales. Consider this. Retailers sold some 2.9 million autofocus cameras last year. But 44% of mass market stores averaged less than 15% profit margins on the autofocus, according to a *Chain Store Age* survey of buyers.

Or consider this. Dollar volume on photoprocessing increased 8% to $3.6 billion, but the cost of doing business in the category rose. More than half of all buyers said they spent more money last year promoting photofinishing, largely just to hold on to the market share they already own. And increased competition from supermarkets and drug stores drove down the average price of a print 10% relative to the consumer price index.

There is an irony to this new competition which is pressuring margins and pumping up costs for general merchandise chains. Photo/camera is a category driven by technology in which innovations are usually applauded because they boost consumer interest. But such advances often entail making equipment easier to use. That has opened the door to all sorts of competition.

This kind of competition squeezed margins in 1984. A name brand autofocus camera can now be had for under $70, and some off-brand models may go for as low as $50 by this Christmas. Even in photoprocessing, where margins have hovered around 30%, the pressure continues downward.

As supermarkets have grabbed the budget-minded processing customer, mini-labs and the smaller micro-labs are threatening to capture more high-end customers. The enormous success of Kis Photo in this country, despite problems it has had serving its franchisees, is testament to the importance of on-site processing. Some 5,000 stores, mostly independents, already have labs on premise. Wal-Mart and Sears are among the major chains looking at these systems, and K mart has labs in some 30 stores.

New technology may also breathe some life into the once explosive SLR category. Minolta's new autofocus SLR, the Maxxum, which contains a focusing mechanism in the body of the camera, is the category's most talked about new product.

Last year, for the first time, sales of point and shoot 35mm cameras surpassed sales of SLRs. Perhaps the Maxxum will change that. Minolta thinks the camera will capture 5% to 10% of the market its first year.

Initial reports suggest that the camera is moving at least that fast, although some complain of trouble getting sufficient product. K mart is hoping for a big order to meet anticipated fourth quarter demand, but recent spot checks of K mart stores around the country have found shortages. Montgomery Ward's best photo stores were initially allotted only a few pieces each and some stores quickly sold out.

While the Maxxum may revitalize the high-end of the mass market, the low-end remains problematic. Kodak's disc camera has had something of a revival, selling better than anticipated in the fourth quarter. However, the disc has only taken sales away from other cartridge cameras like the 110 and the 126 but has not expanded the entire market for cartridge cameras.

Last year also saw the first surge in sales of telescopes and binoculars in anticipation of Halley's Comet. Nearly 8 of 10 mass market photo buyers said their telescope sales increased at least 10%. □

Productivity breakdown			
	Dept. stores	Big 3	Mass merch./ variety
Sales per square foot	$249	$333	$222
Annual turnover	2.2	3.7	3.84
Gross margin	31.9%	25%	30.1%

Source: Chain Store Age research

Growth areas

- Autofocus cameras
- 35mm film
- On-site processing

Industry insiders are speculating about the future of the home computer market.

Heady predictions, hard realities

In troubled home computers, general merchandisers are losing market share to specialty stores.

When Stephen Wozniak left his day-to-day responsibilities at Apple Computer in February, the company's co-founder publicly questioned the future of the home computer market.

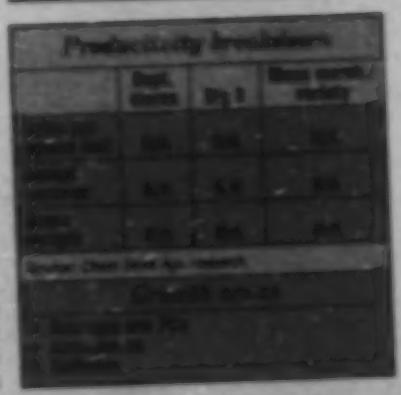
"Everybody I know who wants one already has one," he said.

For many, the computer wunderkind summed up the state of the industry. Sales in 1984 for home computers dipped 4% to 4.6 million units and were far below the heady seven million predicted by the industry only a year before.

In the wake of overprediction, overstoring and excess capacity, the number of computer manufacturers fell from more than 200 in 1983 to 150 at the end of 1984. Major software publishers dropped from 200 to 50. Almost 600 computer retailers either closed their doors or were acquired by larger chains.

Sears halted the expansion of its Business Systems stores, and Apple stopped a test of its products in conventional Sears stores. As 1984 progressed, mass merchants were left with fewer products to sell.

Coleco's ADAM died a quiet death after Christmas. The more surprising announcement came this year in March when IBM announced it was stopping production of the PCjr. In a Christmas selling season where computers took a beating, price reductions had made the PCjr the one shining star. The problem for IBM was that the price drops decreased Big Blue's margins to unacceptable levels.



The PCjr had more than its share of critics right from the start. But IBM products, in the view of many in the industry, have often succeeded more because of brilliant marketing than technical prowess. IBM's withdrawal raised questions as to whether anyone could be successful in the market.

Jack Tramiel, who led Commodore to a 60% share of the home computer market, thought otherwise. Tramiel took Atari off Warner's hands and now hopes to do for his former competitor what he did for Commodore. In January of this year he announced a Macintosh-like ST line for Atari at under $1,000.

First, Tramiel announced that the ST would ship in April. Then at COMDEX he moved the date back to August and denied he had ever promised spring delivery. At Winter CES Tramiel announced the machine would sell in mass market outlets. Now it seems destined for computer specialty stores.

Commodore, meanwhile, hopes to re-enter the specialty store marketplace with its Amiga line but is plagued by legal challenges which continue to push back its introduction. Commodore's new mass market machine, the 128, will have to shoulder the burden of bringing the company back into the black.

With general merchandisers losing market share to computer specialty stores (gm'ers lost approximately 10% of the market in 1984), industry analysts are beginning to doubt if the 128 will do the trick. Increasingly, there is speculation that there actually might not be a market for a home computer.

Amid the pessimism, computer software turned in its first $1 billion year in 1984. Unit sales increased nearly 30%. With computers already installed in 12% of U.S. households, the software industry is less dependent upon growth in hardware for continued success.

Similar to the pattern in hardware, however, general merchandise chains are losing market share to the computer specialty stores. The specialty outlets have boosted their share of the software market to about 40% in the last year. Sears and Montgomery Ward, on the other hand, have watched their combined share fall by half. □

CHAIN STORE AGE, General Merchandise Trends, July 1985

SALES: $32.1 BILLION

In 1984, retailers enjoyed a 10.3% gain in nonelectric housewares' sales over '83.

Space-savers, carafes tops in '84

Despite a 10.3% gain in nonelectric housewares' sales, some categories struggled through 1984.

Several new product categories emerged as the stars of the nonelectric housewares category last year. The success of thermal carafes, microwave bakeware and closet items helped retailers enjoy a 10.3% gain in nonelectric housewares sales over 1983. Sales hit $32.1 billion.

Nonelectric products, according to research from the National Housewares Manufacturers Association, continue to account for two-thirds of total housewares volume.

One of the fastest-growing segments last year was thermal carafes. Chains ranging from Bloomingdale's to Montgomery Ward rushed to set up thermal carafe departments in order to meet the consumer's demand for these items, which keep hot drinks warm all day. By most estimates, this category grew from a zero base in 1981 to a total market of between $25 million and $30 million in 1984.

The best news, according to Montgomery Ward's national merchandise manager Rod Hamilton, is that the category is still in its infancy and should generate strong volume during 1985 and 1986.

The outlook is equally good for microwave bakeware. Fueled by consumer demand, microwave bakeware has developed into a $500 million market. Sources at J. C. Penney, Sears and K mart expect future action to stem from the new downsized bakeware designed for the smaller microwave ovens.

The move to downsized items reflects the continuing trend toward better use of space. That move also created a demand for closet and storage accessories during 1984, buyers report. To that end, department stores and discounters created storage/closet shops featuring a wide array of storage products. Sales, buyers estimate, rose 25% last year.

Despite the impressive gains in these classifications, some nonelectric categories struggled through a difficult year.

Domestic cookware volume, for example, sank 5.7%, a victim of imports. At the retail level, cookware volume was only "mediocre," buyers say. The demand, however, is still strong for anything bearing the SilverStone seal.

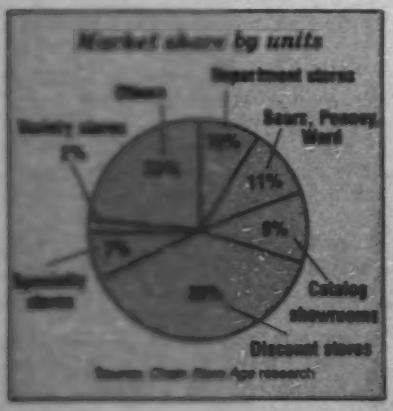
It was a troubled year in the tea kettle and cutlery business as spoiled shoppers came to look for these items only on sale.

Although tea kettle sales soared, margins suffered. Many pointed the finger at Macy's, which overbought the category and bailed out by slashing prices below cost, causing others to follow. For the future, retailers hope to restore some profitability by trading up to the new European-inspired kettles. Woodward and Lothrop, Shillito-Rike and Gold Circle head the list of chains using this strategy.

K mart's senior buyer Donald Bratt plans to maintain margins in tea kettles with decorated kettles at an everyday low prices of $12.97 and up. The key to success with the decorated products, he adds, is to rotate the stock frequently and feature new models every three to four months.

In cutlery, retailers from L. S. Ayres, Marshall Field's and Murphy's hope to retrieve gross margins by featuring more special events and gift-with-purchase promotions.

This is being done, sources explain, to bring margins back in the 40% to 50% range. Margins have been slashed due to rampant price cutting up to 60% and retailers demand that it is "time something is done to restore profits." □



Productivity breakdown

	Dept. stores	Big 3	Mass merch./ variety
Sales per square foot	$134	$120	$110
Annual turnover	2.5	2.2	2.9
Gross margin	40%	38%	36%

Source: *Chain Store Age* research

Growth areas

- Thermal servers
- Microwave bakeware
- Summer seasonals
- Storage items

New electronic gadgetry ignited volume in many categories last year.

Innovations put a charge in sales

Retailers welcome technological advances which inspire consumers to replace outmoded appliances.

A crop of new high technology electrics is charging up sales in the electrics segment of the housewares category. These new executions of standard appliances contributed to last year's 10.2% climb in sales to $17.3 billion.

Retailers welcome the introduction of electronic wizardry because it offers them the chance to boost unit movement by inspiring consumers to replace outmoded appliances. According to the National Housewares Manufacturers Association, a great deal of last year's growth was generated by increased unit movement. Two-thirds of all manufacturers did not activate a price increase during 1984.

Last year was dynamic for under-the-cabinet appliances. "We were finally able to get enough product to meet demand," explains K mart's senior buyer of small appliances Dennis Dorn.

Dorn suggests that these items have now become a "staple" for housewares. During 1984, retailers sold about 2 million under-the-cabinet coffeemakers and further proof that under-the-cabinet is here to stay is provided by retailers such as J. C. Penney who have debuted private label under-the-cabinet offerings.

Yet there are rumblings that the under-the-cabinet market is saturated. Retailers complain that manufacturers have pushed the trend a bit too far by "putting virtually every product under the cabinet." At best, sources believe under-the-cabinet products will settle in at a 10% to 15% total share.

The next phase in appliances, according to Dorn, is rechargeables. K mart, he adds, is "looking at rechargeables" and testing Black & Decker's HandyMixer. "The success depends on the manufacturers' willingness to spend on advertising."

Others, such as Montgomery Ward's Rod Hamilton and Caldor's Bob LeBrun, say it will take more than advertising. "The products will move if there is a genuine need for the item to be cordless," explains Hamilton. Adds LeBrun, "We're watching to see just what happens with rechargeables."

Black & Decker and Sunbeam head the brigade into the cordless business and, naturally, expect it to be "gangbusters." Ken Homa, vp marketing for Black & Decker, envisions cordless products eventually accounting for as much as $500 million in annual sales.

Other categories where electronic gadgetry ignited volume last year were irons, travel appliances and vacuums. Smart irons—those capable of turning themselves off—and cordless irons notched a 20% sales increase to 12 million units.

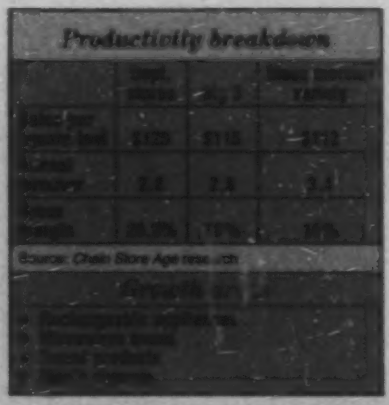
New technologies allowed vendors to shrink electrical components and travel appliances more compact.

"Travel sales are skyrocketing," confirms Dorn. "We have good results with Franzus and Sanyei."

The news that Gillette will soon be marketing the Braun men's shavers in the United States is welcome news to retailers and vendors who say the introduction of this shaver will help persuade more men to try "dry" shaving.

Finally, microwave oven sales show no signs of declining and retailers are adding more sku's to their mix.

During 1984, microwaves were the fastest-selling home appliance. Sales rose 54% to a total of 9.1 million units. More than 40% of today's homes have a microwave and industry projections place that figures as high as 65% to 70% by 1990. □



GoBots was one of several top licenses to receive strong votes from buyers.

Licensing not so risky business

Faced with a bevy of potential winners, and wary of new properties, buyers are consolidating choices.

Who says licensing is a risky business?

In the nine months that *Chain Store Age* has tracked the hottest licensed properties in the toy industry, the same five licenses have dominated sales. At times, especially during the fourth quarter, *CSA*'s poll of toy buyers from the 100 largest general merchandise chains produced nearly unqualified support for the top five properties: Cabbage Patch, Transformers, GoBots, Masters of the Universe and Rainbow Brite.

That kind of consensus should not be surprising. It represents the inevitable reaction of buyers against the dizzying proliferation of licensed properties over the last several years. Faced with a bulging portfolio of potential winners, and wary of the risks associated with big losers like Orphan Annie, buyers have consolidated their businesses and are supporting fewer new properties.

Toy buyers are making big statements in just two or three new licenses and filling out their mix with holdovers from previous years. Buyers of categories in which licensing is of secondary importance—stationery, domestics—have turned even more cautious. They are generally following the lead of toy and apparel buyers but focusing even more on established licenses because it takes time for a successful property to begin influencing these categories.

This is not to say that all of the risk, or all of the excitement, have been taken out of licensing. Picking the one or two potential winners, and avoiding the big losers, is still a challenging job, as *Chain Store Age*'s research shows. A *CSA* poll of toy buyers conducted shortly after Toy Fair found buyers divided about which new licenses would prove this year's winners. Voltron, Princess of Power, Wuzzles and Hugga Bunch all garnered mentions, but no license was chosen by more than 25% of the polls' respondents.

Transformers still top license

Showing most growth:	Showing most sales:
1. Transformers (1)	1. A Team (2)
2. Gobots (7)	2. Star Wars (unl) (1)
3. Cabbage Patch (4)	3. Strawberry Shortcake (3)
4. Rainbow Brite (5)	4. Knight Rider (4)
5. Masters of the Universe (3)	5. Get Along Gang (6)

Ranked on April sales. Numbers in parentheses indicate position in previous poll.

Source: *Chain Store Age* research

Nearly as important as picking this year's big license is understanding which of last year's hits will prove holdovers and which will fade by the key Christmas season. Cabbage Patch's sales remain strong, according to *CSA* research, but a survey of merchandise managers done earlier this year found few believing Cabbage Patch would maintain its staying power through this Christmas.

Similarly, Masters of the Universe slipped to fifth on the *CSA* poll of fastest growing properties during the spring and disappeared completely from the ballots of some toy buyers. On some ballots the license was replaced by Care Bears, which made a run at fifth place following release of the movie featuring the American Greetings characters.

Although characters represent most of the excitement and profit in licensing today, they are clearly not the entire story. Corporate licensing, the practice of placing well-known company names or symbols on appropriate merchandise, already accounts for about 15% of sales in the category and may do 25% of its volume within several years. The introduction of Coca-Cola sportswear and Tony The Tiger's debut as a licensed property should fuel growth here.

The energy and potential of the licensing business is apparent from the diversity of products and properties which have been blended together to form winning combinations. Forever Krystle, a fragrance based on the hit television series Dynasty, proved the biggest selling mass market fragrance last Christmas. Carrington, a men's fragrance based on the same series, is due out this year.

And finally, proving that just about anything, including national monuments and celestial phenomenon, can be licensed, several entrepreneurs have produced copyrighted designs on the Statue of Liberty and Halley's Comet. Their plans: to produce everything from T-shirts and glassware to baseball caps and beach towels commemorating the Statue's 100th birthday and the return of the comet. □

SALES: $5.4 BILLION

Growth activity is apparent in women's hosiery and also children's socks' sales.

Hosiery sales enjoy a good turn out

Private label is capturing a good deal of the hosiery business at discounters and department stores.

The arrival of pantyhose with pizzazz helped retailers ring up a 12% increase in hosiery sales during 1984. Bright colors, lace and patterns—all priced higher than standard hose—were the designs buyers picked as the catalysts to push category sales to a new high of $5.4 billion.

According to the National Association of Hosiery Manufacturers, 1984 domestic hosiery shipments exceeded last year's total by 1.2 million dozen pairs for a total of over 308 million.

An increase in imported hosiery cut into the domestic business with total hosiery imports jumping 61% in 1983 and another 66% in 1984. According to NAHM president and ceo Sid Smith, imports "took away some of the exuberance from an otherwise good year."

For retailers it was certainly a banner year for the category. Many rushed to tap into the flurry of sales of trendy hose by creating fashion boutiques. This ploy was even used at the discount level by chains including Richway, Gold Circle and K mart.

Another prevalent trend last year was the expansion of private label hosiery programs. Richway instituted a new private label program displayed in a larger department called Leg Views. Gold Circle also improved its selection and company officials estimate that private label accounts for better than 60% of sheer hosiery sales.

At Federated's MainStreet stores in Chicago, the company's own label receives prime display space and is currently outselling national names.

With the introduction of more fashion into the pantyhose segment of the market, department store retailers also noticed a surge in shopping activity at their stores.

"Women who had been turning to one-stop shopping because it was more convenient to buy hose at a food store are now coming back to us because we have the fashion," explains a dmm from Foley's.

The growth activity was not only in women's hosiery (which accounts for more than half of all sales) but in infants' children's and footsocks' sales.

According to buyers, infants' and children's sales in sizes 3 to 8½ are enjoying the results of the baby boomlet. This category, according to the NAHM, showed a 0.5% gain in shipments and a 10% jump in volume. This same trend created a renewed demand for footsocks for infants and children and those shipments rose 35.5%.

For 1985, retailers expect to see more volume in color hose. Bright colors, however, will not be the fashion cue for 1985.

"We expect to see more neutral tones and sophisticated black, gray and beige," reports a buyer for Troy, Mich.-based K mart.

Others expect more activity out of the Lycra segment of the market. Lycra, most admit, has yet to be exploited at the retail level. Currently, retailers such as L. S. Ayres and Neiman Marcus are spearheading programs to teach salesclerks about Lycra, a move which should spur sales of Lycra hose.

The trading up that took place in the department store hosiery business last year is evident by the improved gross margins. In 1983, department stores reaped gross margins of 46.8% vs. 1984's 48%.

Margins were down slightly, however, at the Big 3 and discounters who had to become more promotional to maintain business. □

Sales will be spread over a broader number of toy categories this year.

Back to the Cabbage Patch

In addition to sizzling sales of Cabbage Patch Kids and action figures, games and plush were also hot.

Last year, just a few products dominated the toy business: Cabbage Patch Kids, Trivial Pursuit, action figures (mainly Masters of the Universe) and robotics (especially Transformers). The first two are losing some sales sizzle in 1985, while the latter categories will likely continue their robust sales story to the end of the year.

Robotics, overall, was the No. 1 selling category last year, and appears to be the clear winner for '85. But no single item has appeared yet that evokes memories of last year's Cabbage Patch riots.

Because these categories were exceptionally strong, sales increased dramatically—up 20% to $12.1 billion. Units increased 14%-15%, but gross margins were depressed as many toy items sold at promotional prices. In addition, many merchants wound up overstocked in what is normally the profitable fourth quarter.

There were a few strong categories other than the heavily publicized ones. Overall, toy and game sales rose 103%, infants and preschool toy sales were up 41%, and plush toys gained 51%. The only disappointment was electronic games and video software, down 54%.

Most retailers are hopeful that margins will improve this year, although business is still very promotional. "We'll be as promotional in '85 as '84," says George Colgan, senior toy buyer for K mart. "It will still be a level that has profitability left in it."

"Some very big chunks of business in '84 were very low margin," says Paul Starkey, toy buyer for Dayton Hudson Department Stores. "In robotics, for example, it was across the board." Starkey predicts robotics will become like Barbie, where "you give the doll away and sell the clothes." Of the 50-60 robotics sku's his stores carry, Starkey believes only 10-20 will be very visible, and thus subject to promotion, while the margin can be moved up on the rest.

Sales will be spread across a greater number of categories this year. Dolls might make something of a comeback with My Buddy and Real Babies, especially if Cabbage Patch sales slow. Some business is still anticipated for CPK dolls. "Coleco has done a better job of filling the market with goods," says Stanley Walsh, dmm at Child World. "Retailers are selling out in four-five days instead of one. But we're far from pronouncing it dead."

The only area in robotics where GoBots have out-performed Transformers is in small, Hot Wheel-sized vehicles, says Rick Hans, toy buyer for Sanger Harris. Transformers have led the category mainly because product was out there. "Hasbro opened up shipments of Transformers in the early spring at the same time GoBots was cutting back. Tonka let Hasbro get the jump on them," adds Child World's Walsh.

Voltron also looks good to retailers because it combines the robotic theme with fantasy action figures and vehicles. In areas where the Voltron series is on TV, the items are blowing off shelves.

One late bloomer in '85 could be animated figures. While no one has yet said, "I have seen the future of toy retailing and his name is Teddy Ruxpin," retailers who have seen Worlds of Wonder's initial entry into this category have great expectations. Another ex-Atari staffer, Nolan Bushnell, also has entries into the category with Axalon. □

Productivity breakdown

	Dept. stores	Big 3	Mass merch., variety
Sales per square foot	$86	$97	$111
Annual turnover	2.6	2.9	3.5
Gross margin	30.6%	32.6%	28.1%

Source: *Chain Store Age* research

Growth areas

- Action figures and playsets
- Robotics
- Licensed and generic plush
- Increased play value toys

SALES: $14.9 BILLION

Rowing machines still sell predominantly to men, says one buyer.

Saturated market may hurt sales

A bright spot in sporting goods sales is home exercise equipment, which continues to grow.

Everyone expected 1984 to be a gangbuster year in sporting goods after the extremely strong year in 1983. But the sales increase of 10.9% was somewhat disappointing after 1983's 13.8% increase.

Howard Bruns, president of the Sporting Goods Manufacturers Association, predicts 1985 will be only a fair year, not a great one, with real growth only in the 4%-5% range.

Last year was not without some bright spots, however. One was home exercise equipment, which continues to grow at a 20% rate, although overall equipment sales are flat. Neither retailers nor manufacturers expect that growth can continue much longer at that rate. Most of the consumers who buy equipment already have some type of home exercise unit. More importantly, there is no fad item that will sell at the rate of 1982's jogging trampoline, notes Ron Sigal, sporting goods buyer for Dayton Hudson.

At one East Coast discount chain, a buyer describes '84 as "excellent in almost every item, which doesn't look like it will happen in '85 with the market so saturated." The discounter's biggest standout was DP's BodyTone 300 rower/gym, but he adds that the rower's '85 volume had dropped off tremendously. Even though there is still a market for combination rowers, lower-priced import knockoffs are stealing DP's thunder.

Rowing machines are still selling to men, says John Lehman, exercise equipment buyer for The Broadway in Los Angeles, but just didn't catch on as well with women. The Broadway even tried rowers in "fashion" colors like red and white to appeal to women, but sales to women just didn't equal those to men.

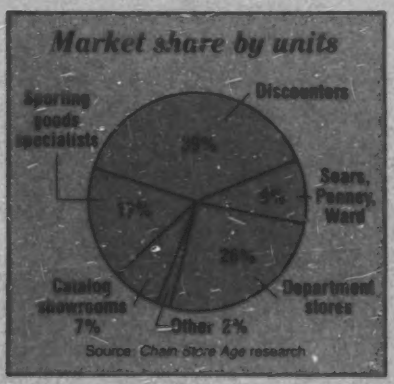
Lehman, however, sees exercise bikes appealing more to women. And overall bike sales are expected to increase as bikes, along with other exercise equipment, go high-tech or upscale. "The basic exercise bike is being replaced by the flywheel bike," says Lehman. Previously, The Broadway sold bikes priced about $49. Today, the range is $130-$300.

Dayton Hudson's Sigal also sees the trend toward better equipment. Sigal believes people are buying exercise equipment for quality, for a look, and for what fits into their homes.

The introduction of Nautilus for the home fits into this whole upscale equipment category, but will not dominate the category. One reason is Nautilus' limited market—the company refuses to sell to discounters. Another is Nautilus prices—each piece averages $500 and only exercises one or two muscle groups. The third reason is a full Nautilus system doesn't fit into most homes, offices or condos—the Big 3 for home equipment sales.

"What you'll see with The Broadway and a lot of other department stores is a select, upscale group of equipment," says Lehman. He defines that as exercise bikes, rowers and multi gyms—those items that appeal to the masses. "We don't want to be sporting goods experts," explains Lehman. Like many other department stores today, The Broadway no longer has a full sporting goods department. Equipment is sold in a shop called Body Focus, which is situated adjacent to housewares, men's wear or hosiery.

Bowling should see some slight sales gains with modernized lanes and a new appeal to younger customers. Demographics continue to favor increased golf participation, particularly in the Sunbelt states with large retiree populations. □



Productivity breakdown

	Dept. stores	Big 3	Mass merch./ variety
Sales per square foot	$74	$93	$116
Annual turnover	2.6	3.2	2.4
Gross margin	34.9%	33.5%	26.7%

Source: Chain Store Age research

Growth areas

- Upscale home equipment
- Exercise bikes
- Golf

SALES: $48.5 BILLION

Women's wear should grow this year, partly as a reaction to the men's wear trend.

New styles show off fit shapes

New-old 'stirrup' pants, more feminine career apparel and knits are fashion forward for '85.

The androgynous men's wear look touted for '84 didn't produce expected sales results. In fact, Karen Bohnhoff, vp/trend merchandising at Dayton Hudson Department Stores, terms androgyny "the worst. It was not flattering, far too masculine—no color combined with essentially no style," she adds. In short, nothing to catch a woman's fancy.

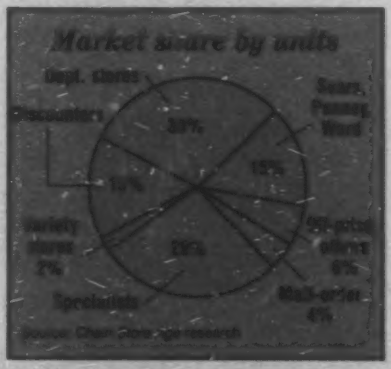
This year, women's wear sales should be up, partly as a reaction to 1984's men's wear trend and flat unit increases. The new looks are much more feminine and show off the body, counteracting the big, shapeless styles of men's wear.

"Men's wear was not as big as expected," says Lucille Klein, fashion director for Sanger Harris. "People overreacted," she feels, and made men's wear the focal point of women's wear departments, rather than a fashion option. As a result, women were turned off.

For '85, she sees silhouettes moving back to the body. "American women have spent a lot of time and energy keeping their bodies in shape," says Klein. The new designs aim to show off good bodies, particularly with knits.

Also impacting on women's wear, mainly in juniors but also with trendy misses, is pop singer Madonna. Her tarty style has done more for knits, lace and accessories, not to mention long-line bras, than any store mannequin. "Cyndi Lauper and Madonna were enormous influences on prom dresses in '85," says Klein. Lauper's second-hand rose put-togethers also helped revive color and spark print interest.

Making a comeback in this back-to-the body movement are ski pants, last seen in the 60's and now called stirrup pants. These slim knit pants are usually paired with oversized sweaters. Particularly successful among sweaters last year were shaker knits, which could be found at discounters on up to department stores. The look appears to still be strong, at least at the lower end. "I don't think we scratched the surface yet," says the buyer for an East Coast discount chain, of shaker knits.



Discounters are also doing well with knits in bottoms. The East Coast discounter "got on the bandwagon with stirrups and harem pants paired with oversized tops" and is looking to pursue it further for fall. Madonna-influenced styles, like lace leggings and tanks, have also sold well for the chain, which is anxiously awaiting shipments of halter turtlenecks and miniskirts.

Femininity is making an impact in career apparel also, partly as a reaction to the men's wear look that dominated corporate suits. "Dresses say 'I am female,'" says Sanger Harris' Klein. In addition, women are feeling freer to move away from the strict structured suit. "As women become more secure in the boardroom, they become more adventurous in their dress," she adds.

While suits are selling, they are most likely to resemble the unmatched suits introduced by Ann Klein II in '84, says Dayton Hudson's Bohnhoff. She also sees more sales coming from accent jackets alone, in unconstructed styles.

Skirts are longer and leaner, and the longer skirt is even cropping up in discounters. But here the market hasn't been quick enough to give the public what it wants. The East Coast discounter notes that the few styles she had "really flew out of the junior department."

Shorts did very well in '84, and shorts and rompers continue to be sales leaders this year, along with camp shirts. Retailers aren't sure whether consumer response has been motivated by warmer than usual weather or by an abundance of short length options.

Novelty denims have been losing ground although Girbaud-type baggies set the pace in '84. This year may see the reappearance of the lean jean and the classic five-pocket jean. □

SALES: $18.1 BILLION

Overall sales in the fragrance category climbed 11% in 1984.

Giorgio boosts fragrance sales

Hot fragrances like Giorgio, Opium, Aramis and Polo increased sales in last minute Christmas shopping.

A handful of new fragrances helped spark cosmetics/H&BA sales in major department and discount stores during 1984. Overall, sales in the category climbed 11% to $18.1 billion.

The most dramatic product launch in department stores was Giorgio of Beverly Hills. Sources at Rich's, Macy's and Bloomingdale's peg Giorgio (with an opening price point of $45) as the hottest fragrance in stock last year. In fact, Giorgio often accounted for as much as 45% of total Christmas volume at the stores lucky enough to have the scent.

"Without Giorgio," says Rich's cosmetics merchandise manager Emanuel Roth, "sales would have only increased 4% instead of 52% last Christmas."

Other top scents at leading department stores such as Rich's and Macy's included: Oscar de la Renta, Opium, Chloé, Lauren, White Linen, Chanel, Guerlain, Aramis, Polo, Lagerfeld, Halston, Pour Lui and Royal Copenhagen.

Charles of the Ritz's Forever Krystle and Houbigant's Lutece filled the void for retailers who could not get on Giorgio's distribution list. Bill Thompson, fragrance buyer for Sears, reports Lutece was his best in terms of gross sales and that Forever Krystle (based on the Dynasty character) was tops in sell-through and return on inventory investment.

Gift set sales were somewhat sluggish at department store counters. Sears, however, registered about a 78% sell-through in men's sets and an 88% sell-through in women's sets.

For 1985, retailers are betting on Calvin Klein's new Obsession, already a hot property in some stores. Many are also hoping Forever Krystle's new men's version—Carrington—will perk up men's fragrance volume.

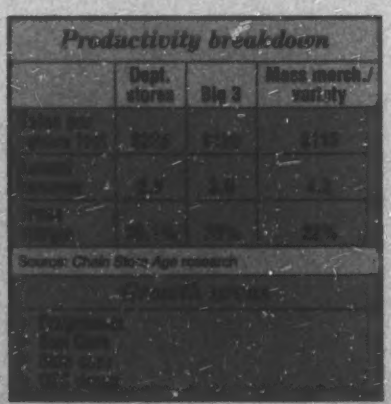
In fragrances, Christmas 1984 was a last minute business. "America went on a three-day shopping spree at the 11th hour before Christmas and probably saved most of us our jobs," quips Richard Meyer of Jovan. For 1985, the situation is even "scarier," says Roth, because there are six fewer shopping days between Thanksgiving and Christmas.

Skin care was a bright spot in the category last year as more women—and some men—searched for methods to help halt the aging process. The emphasis was on therapeutic brands hyping a scientific process. New products on the horizon reflect this concern for aging. Estee Lauder's Line Preventor from Prescriptives and Biotherm's Antirides Solair Anti-Aging Tanning Cream are two cases in point.

With the emphasis on aging, consumers are turning to more sun protectants. During 1984, department store and discount retailers enlarged the offerings of sun care products. Sales grew about 20%.

Another department gaining greater space last year was hair care, especially the new mousse items. During 1984, mousse grew into a $150 million category. Retailers are currently juggling the department to try to find room for the 25-plus mousse entries into the category. Overall shampoo and conditioner sales were flat.

Over-the-counter drugs continued to be a new avenue for discounters to expand their business and become more of a one-stop shopping source. □



In infants' and toddlers' clothing, coordinates remain hot for 1985.

Mini baby boom sells clothes

New mothers are value-conscious shoppers for their children's clothing, yet they will also spend lavishly.

Children's wear had fair but uneven growth last year. Overall, sales were up 2.6%. Infants' and toddlers' performed well while apparel sales for older children remained soft.

Still, retailers are optimistic about older children's clothing sales in 1985. They expect the strong infants' and toddlers' markets to start affecting girls' and boys' apparel sales as these younger children age.

The mini baby boom of the 80's is credited with revitalizing children's wear sales. This year, 3.8 million babies are expected, compared with 3.6 million babies in 1980 and 3.1 million in 1975.

"Births are up but more important is that first births are up," says Mike Searles, president, Kids "R" Us. "The average dollar spent on first-borns is higher."

In infants' and toddlers', coordinates remains "hot" for '85. Additionally, fleece outfits, such as jogging suits and sweat shirts, will garner more attention.

New mothers continue to search out stores that offer value for children's apparel, especially since the youngsters outgrow clothing yearly. Industry sources note a continued increase in the off-price business, as well as in the discounters' and Big-3 catalog chains', as a result.

Department stores, on the other hand, have benefited from the gift business. They have been able to maintain their market share because of the growth in births.

The lavish spending of new mothers continues into older children's apparel. Nonetheless, they remain value-conscious shoppers.

Trends in girls' closely follows those in juniors'. Young girls are more sophisticated and interested in fashion than ever before.

"We're bullish on dresses and shaker sweaters this year," says Robert Parks, children's dmm at The O'Neil Company.

Like other merchants, O'Neil's is counting on the dress business opening up after several tough years. Retailers attributed the soft business to overstocking of dressy dresses and the smaller population of young girls.

Kids "R" Us' president Mike Searles expects girls' suspender pants to grow this year. O'Neil's dmm Robert Parks agrees, but cautions, "Suspender pants are just an item, not the salvation."

In both girls' and boys', fleece continues to hold opportunities. Playwear dominates sales and licensed properties comprise a big part of the business.

"Playwear, in general, whether it be Osh Kosh or private label, is big business," says O'Neil's dmm Robert Parks. This is a shift in traditional buying patterns where school clothes, by far, outsold playwear.

Last year saw the demise of novelty bottoms, such as parachute pants, and the resurrection of five-pocket jeans for children. Retailers suggest that the novelty looks didn't sell well because of their high prices. Five-pocket jeans, however, represent value under $15.

Moreover, the five-pocket jean trend triggered interest in denim jackets once again. Retailers predict movement in short, stonewashed and canvas jackets for fall.

Lastly, boys' wear (which some say is the most neglected children's wear category) is receiving more attention these days. Trying to look older, boys are picking up on menswear trends faster. Textured sweaters and shirts and the oversized, drop-shoulder styles will continue to be strong. □

SALES: $23.1 BILLION

Politics influences men's wear

At about the time of Reagan's re-election, men's wear fashions took on a decidedly 'retro,' 1950's look.

"It was a very peculiar year," says Dallas Menswear Mart executive dirctor Rick Lalla. "Nineteen eighty-four was so-so. Sales were allright, but there was a continuing anticipation that things would be better. It led to a little anxiety. First everyone would overbuy, and then they would promote."

Men's wear volume increased 6.2% to $23.1 billion in 1984, but the sales increase came at the expense of margins. For department stores, gross margins fell from an average 43% in 1983 to 38% last year. Discounters held even at 35%, while the catalog chains saw their margins drop from 40% to 35% in 1984.

Strong sales in the early part of the year led many retailers to overbuy for the second half. By midyear, the bottom dropped out of the market, inventories built and price promotion began. So far in 1985, buyers have been more cautious and margins are reported to be growing.

In tailored clothing, the European look held strong throughout much of the year. Double-breasted suits, pleated pants and more shouldered looks dominated 1984 right up to holiday. While the European influence remains strong, it now seems to have peaked with natural shoulders and more comfortable looks making a comeback.

For young men's, bottoms, especially baggy jeans, came on strong early in the year, but just as quickly fizzled. Bright colored, preppy styles are an upward trend in 1985.

Men's sportswear underwent a dramatic change late in the year, and some even attributed the move to the changing political climate. "The retro-1950's look set everything in a new direction," says Joe Cecil, former Marshall Field vp and current co-owner of Chicago-based specialty store Mallards.

"Just about the same time as Reagan's re-election we saw a strong return to 50's nostalgia," says Cecil. Hawaiian shirts, pleated Madras shorts, seersucker bathing shorts and even white buck footware all made a comeback. Also on the uptrend are older, used looks à la Banana Republic fare. "Fun is the operative word," Cecil says.

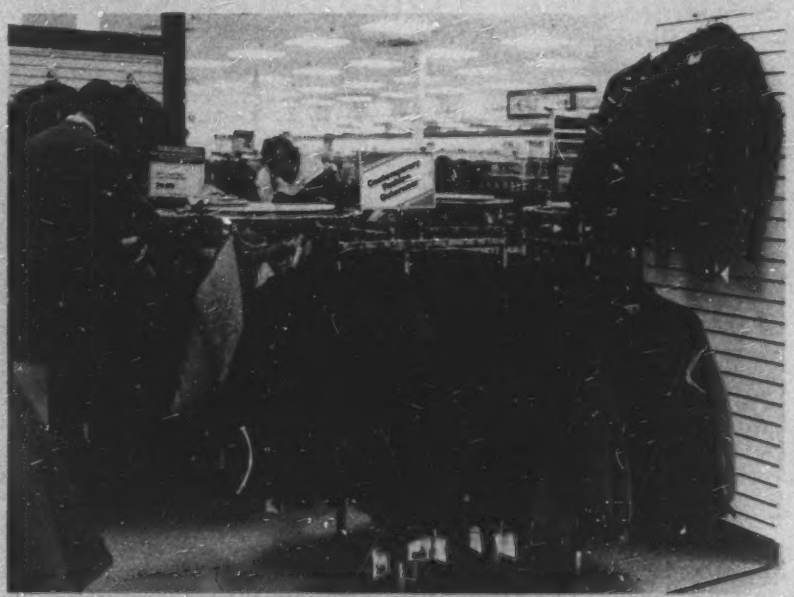
While sleepwear sales were generally sluggish across the industry, the rest of furnishings posted healthy gains. Both fashion hosiery and fashion underwear saw strong increases and are tagged for major growth potential this year.

In dress shirts there was a return to basic white, but at the same time a broadening both in color palettes offered by vendors and in consumer interest in the wider color selection. Fitted shirts remained a strong business for department stores.

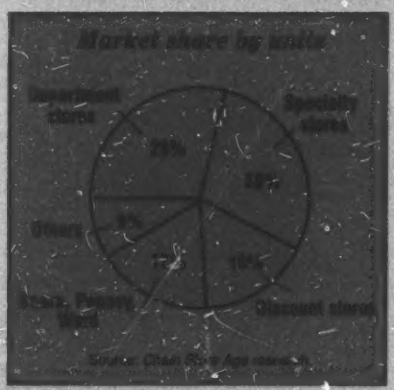
Ties turned in a good year with yellows, reds and paisleys showing the most growth. The return to narrow neckwear became more apparent with assortments now typically 20% narrows. Seasonals continued a basic department staple.

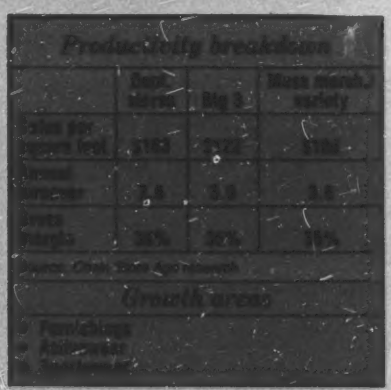
In all, men's wear in 1984 seemed almost a contradiction. On one hand men seemed to be turning back to basics, while on the other they seemed to be more fashion-forward than ever.

"I don't know if they are the same customer or not," says Sanger Harris divisional vp for clothing and furnishings Mark Quick, "but you can't afford to ignore either trend. Maybe the customer who shops for basics will buy newness and fashion if you present it to him. You have to be in an in-stock position in both areas." □



Men's wear volume increased in 1984, but sales came at the expense of margins.





SALES: $4 BILLION

The increase of women in the work force has affected the home sewing business.

Can fashion trends boost sewing?

Retailers hope that new fashion silhouettes will soon translate to increased home sewing sales.

For the fourth consecutive year, sewing sales stagnated at the $4 billion mark. Margins continued to erode while dollars per square foot inched upward for discount and department stores.

However, specialty chains such as Fabri-Centers of America, with 657 stores, and Cloth World, with 303 stores, remained viable, if not lucrative. Margins for the giant retailers hovered around 50%, consistent with previous years' performances.

As a result, more mass merchants cut ties with the category and left the sales to the handful of successful specialty chains and independents. Most recently, Caldor announced it, too, will abandon piece goods to expand its home textiles.

A number of factors affected the sewing business, note industry experts. Fabri-Center's sr. vp Mike Feuer says, "The changing demographics hurt the industry." He pinpoints the increase of women in the work force. McCall Pattern Co.'s publicity manager Mary Marino adds, "It's harder to get the teen market." Simplicity Pattern's sr. vp of marketing Judy Raymond explains, "We are dealing with increased competition for leisure time and the lack of [sewing] education in the school systems."

But despite the hardships of the past few years, retailers say 1985 looks promising. "As the population ages [over 30], our business will improve," says Feuer of Fabri-Centers. He explains that historically the majority of home sewers have been in this age group and that this group will soon represent a large segment of the population.

Suppliers, retailers and sewing associations are all helping to educate the public. They promote the latest innovations for fast and easy sewing to consumers in ads, in-store classes and displays. These include new sewing techniques, fabrics, and the most current programmable sewing machines.

Fashion trends, too, will bolster sales. New silhouettes combined with large-scale prints replace last year's solids and encourage the fashion-conscious to update their wardrobes. However, retailers fear consumers may turn to the racks unless sewing is made more attractive to them.

"This is an enormous financial commitment for consumers," says Raymond of Simplicity. With the wealth of easy-to-sew patterns and broad selection of fabrics, she thinks consumers will supplement shopping sprees by sewing some of their own garments.

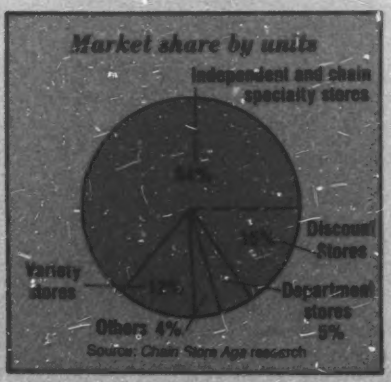
McCall's Marino agrees and adds, "Dresses are a big thing this year." Like other pattern companies, McCall has seen an increase in sales of its designer patterns such as those carrying the Liz Claiborne name. Moreover, retailers note that consumers who buy these designer patterns are more likely to purchase other high-end goods in fabrics and notions.

Additionally, the echo baby boom has sparked some interest in home sewing. Retailers, as well as suppliers, report movement in maternity and infants patterns. "We haven't seen this much activity in years," says Marino.

Another factor influencing the estimated 40 million to 45 million home sewers is the emphasis on home decorating. Consumers are designing rooms using fabrics for a variety of purposes ranging from decorative pillows to wall coverings. The pattern companies have responded by offering full lines of bedspread, curtain, drapery and pillow designs.

Lastly, the increased selection of serger or overlock machines have boosted sewing machine sales. Retailers say consumers like the simplicity and speed in sewing these machines provide. □

Market share by units



Productivity breakdown

	Dept. stores	Big 3	Mass merch./ variety
Sales per square foot	$38.9*	N/A	$58.00
Annual turnover	1.6	N/A	2.6
Gross margin	39.8%	N/A	36.2%

Source: Chain Store Age research

Growth areas

- Dress patterns
- Serger sewing machines
- Home fashions

SALES: $21.5 BILLION

The trend in athletic shoes is toward a less authentic appearance.

Footwear flat, but flats fare well

'Comfort' shoes, and at the other end of the spectrum, higher heels, are projected big sellers for '85.

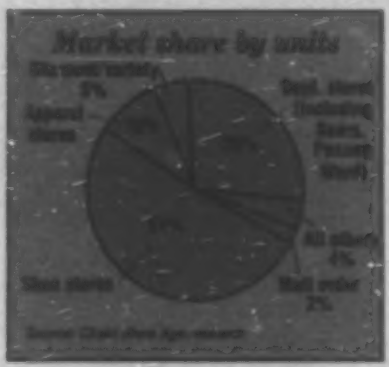
The androgynous look that pervaded women's wear did not help to sell very many pairs of shoes in 1984. (It did not sell much apparel either.) However, flat shoes, including casual and athleisure styles, did well, since many of the styles shown, such as cropped pants, demanded a flatter heel.

Sales were up only slightly, to $21.5 billion, although units increased 7.7%. Imports continue to command a larger share of the footwear market. Domestic production was down 13.3% to 298 million pairs and is continuing to fall this year, according to Janet Porter, manager of statistics services at Footwear Industries of America. Imports were up 24.8% to 726 million pairs and controlled 71.5% of the footwear market in '84. So far this year, imports look to take 76% of market share.

All of this importing helped retailers increase margins slightly. Leather, particularly, was less expensive, and real leather shoes (uppers only) were offered by upscale discounters regularly.

Retailers feel confident that style trends in '85 will lead to more dollars from footwear. Several major footwear chains, from Kinney Shoes to May Co.'s Volume Shoe division, are posting good results for the first part of '85.

"Androgyny is gone, and that was bad for shoes," says Anne Gilliar, fashion director for Volume Footwear Retailers of America. She sees pumps, which were surprisingly strong in 84's year of flats, continuing into '85. In addition, there will be more emphasis on higher heels, which goes along with the new femininity in apparel.



However, notes Andrea Rosen of the Footwear Council: "Pumps are still selling but women have been pumped to death. There has to be some impetus to get them to buy."

That impetus, retailers feel, is color, which was also lacking during the men's wear trend. The only real color last year was in plastic "jelly" shoes, which were mostly low-end, retailing for as low as $2. Along with color in dress shoes and casuals this year comes more emphasis on fabrics—Hawaiian prints, linens, meshes, wovens, and clear vinyl used as an accent.

Color is also increasingly important in athletic and athleisure shoes. The trend in athletic shoes, including those worn for casual wear, is toward less authentic looks.

The vagaries of the athletic/casual shoe market impacted on the fortunes of several major manufacturers last year. Nike, for one, overanticipated demand for the authentic look and ended up disposing of merchandise through nontraditional outlets, such as discounters. That, in turn, angered Nike's traditional outlets, which were forced to slash prices to remain competitive. This year, they are very wary of Nike goods, with the exception of its Air Jordan line, which is on target with colorful, soft leather high-tops.

Reebok, on the other hand, was in a perfect position last year to reap the rewards of the colorful, less authentic look with its soft leather aerobic shoes, both regular and high-top.

The long-term trend developing out of '84 is a move to "comfort" shoes. These new shoes, says Volume Footwear's Gilliar, will not be as we knew them in the past—not simply another flat or moccasin or athleisure shoe.

New technology is being applied to how shoes are made, Gilliar notes, with the shoe of the future emerging with contoured laths and bottoms. "More interest will be concentrated on what goes into the shoe," she says. Gilliar points to Rockport Casuals as being an example of the new comfort shoe, although Rockport itself is not new. Elements of Rockport's styling, such as jogging soles paired with casual uppers, will be extremely important for both men's and women's casual shoes, she believes. □

SALES: $3.8 BILLION

Hobby/crafts hobbling along

More women in the work force, and kids' interest in video games have put a dent in hobby/craft sales.

Woolworth buyer Frank Salvatore blames a changing society for the lack of action in hobby and crafts last year: "In hobby kits we've hit bottom and are just about holding our own." Industrywide sales for hobby/crafts increased a paltry 2.7% to $3.8 billion in 1984.

"There's no surge in the hobby department," Salvatore says. "The same thing that's been happening for the last three years happened again last year. GoBots, Transformers and video games have taken away from the hobby area.

"You have to have patience to put together a kit," adds Salvatore. "Kids today don't concentrate—they want everything as fast as one—two—three."

Upgraded kits, says the Woolworth buyer, continue to sell well to adults, particularly senior citizens but still he would be hard pressed to characterize that part of the business as sizzling. "We concentrate mostly on the low end, and it's just not happening there," Salvatore adds.

The trend in the craft end of the business, however, is good. "Crafts appeal mostly to adults and young girls who are not involved with either video games or Transformers," says Salvatore.

T.G. & Y. Stores, for one, has taken quick action to follow the upward trend in crafts. "I hope other retailers haven't caught onto this

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yet," says a T.G. & Y. spokesman. At one test store location, the Oklahoma City-based retailer has devoted fully one-third of its floor space to craft items.

"Our customers went nutty about it," says the T.G. & Y. spokesman. "All they want is more—more—more. We're selling tons of things like pillow lace. You should see those typical little ladies scurrying around the store."

But "those typical little ladies" are getting harder and harder to find in many markets. According to the U.S. Bureau of Labor Statistics, 1984 marked the first year in which over half of women held down jobs outside the home. One of the first casualties in markets with high numbers of working women has been crafts.

"Crafts are not selling, period," says New York-based Lamston's craft buyer Marlene Roscoe. "I can't even give soft sculpture away."

The typical Lamston's customer, according to Roscoe, is a working woman who commutes and has relatively little time in her busy schedule for craft work. While in theory her commuting time might profitably be whiled away performing craft work, "You can't really do latch hook very easily on a bus," Roscoe notes.

Upgraded craft kits are selling well, but are not a booming business.

Craft year sales held about even for the Lamston's buyer last year, while needlepoint volume edged up. Roscoe believes there still is a healthy potential market for needle crafts, but complains that vendors have been slow to respond to the changing demographics of her target customer.

"I've been trying to convince people to bring out 5-in. x 7-in. and 8-in. x 10-in. pieces," Roscoe says, "but no one has responded yet." The Lamston's buyer believes the smaller sizes would better appeal to her commuting woman customer.

"If only they would come out with these sizes. I'm sure people would buy it," adds Roscoe.

Last year variety stores picked up another 2% in market share for hobby and craft retail sales, growing from 9% in 1983 to 11% in 1984. Discount stores held onto the largest part of the market with 33% (equal with last year), while toy stores picked up a point and the Big 3 catalog chains dropped 1%. □

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Home office in high demand

Competition among discounters, variety and drug stores is heavy, particularly in BTS products.

Home office products continue to be the stars in stationery, with many retailers complaining they cannot replenish inventory fast enough to meet customer demand. The products were largely responsible for the 9% overall growth of the stationery department category, as some other staples turned in lackluster or inconsistent performances.

Prices are eroding in back-to-school paper products, and competition for market share among discounters, variety stores, drug stores, supermarkets and even some gas stations is generating a dog fight. Greeting card sales are flat overall but performed well for some retailers who fine-tuned their mix. Frames and photo albums continue to perform well, with occasional flashes of sales surges sparked by new additions, such as poster frames.

While retailers continue to search for those hard-to-find, exciting new products, they can take some comfort from the continued strong performance of home office products. For variety stores who have carried the category for years, it continues to be a strong but stable category. But for discount stores who are relative newcomers to the category, the products continue to put lustre in their sales figures. Discounters' successes have prompted some department stores to take another look at the category's potential.

The Illinois-based P. A. Bergner department stores are getting into home office products. A store spokesman explained that the renewed interest is due in large measure to improved packaging "that has the department store look."

The Philadelphia-based Strawbridge & Clothier got into the home office area for the first time last year and has been very pleased with customer response. The stores present an upscale mix, but also offer moderate-priced options.

Greeting cards have proven to be something of a quandary, as buyers experiment with different mixes of major brands and specialty cards. T.G. & Y. produced solid sales gains by adopting a complete American Greetings program, while the Hallmark program at P. A. Bergner showed some sales slippage.

Veteran buyer Bill Young of Woolworth says sales of BTS products were "excellent" last year because of a solid advertising program, more space allocated to the mix, and promotional pricing. Young, who has since joined Herald Square's specialty stores, says his experiences were the exception in the industry, as other retailers describe flat sales or good sales with slim margins.

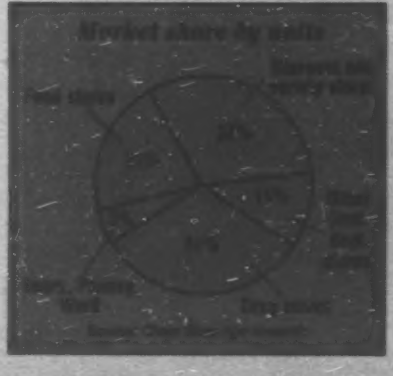
Touching all retailers is the continued lack of new, exciting products—something to increase traffic in the stationery aisles. As T.G. & Y. buyer John Bates says, "Stationery is a very basic category. We don't get the violent peaks and valleys."

P. A. Bergner's experiment with a novelty item shows what a new product can do for sales. The product, a small ice scraper attached to an imitation fur or sheepskin mit, was sold in stationery from October through January and 20,000 units moved.

Strawbridge & Clothier tried the same novelty approach by being the first to identify itself with Trivial Pursuit in the Philadelphia area. Much of the stationery department's "double digit" growth last year is credited to the board game.

There is no letup in competition for stationery sales, as drug stores and supermarkets continue to make their presence felt. Pamida buyer Chuck Rist says he saw the same encroachment pattern 15 years ago, but learned his concerns were unjustified. Rist sees signs that supermarkets and drug stores are expanding too fast for their customers and are being forced to cut back. □

The slight upturn in school enrollments will expand the back-to-school market.



Department stores score major gains

Department stores have unshackled themselves from the high inventories that hobbled their performance in the fourth quarter and produced increased earnings averaging 25% over the first quarter of 1984.

The biggest winners, Associated Dry Goods with an 85% gain, and Carter Hawley Hale with 59%, were able to bring inventories in line with sales and maintained margins and effective cost control measures. ADG also credited its earnings success to a strong performance from Caldor and Loehmann's, and singled out Lord & Taylor for its contribution.

Sears, Penney and Ward stumbled badly in earnings, especially in comparison to the strong sales and earnings that a rejuvenated economy produced in the first quarter of 1984. Penney Chairman William R. Howell seemed to sum up the reasons for the decline in earnings when he explained that the company continued its accelerated markdown and promotional activity to reduce inventories in an intensely competitive environment.

Howell reports that inventories were in line with sales projections by the end of the quarter, saying Penney is now well positioned with fresh seasonal merchandise and expects sales and overall earnings for 1985 to exceed the 1984 level.

Discount and variety stores had mixed results in working to position themselves for stronger earnings later in the year.

Woolworth achieved a 50% increase in its rate of earnings by maintaining its margins, producing a small sales increase, and keeping expenses under control. Zayre, which posted a 32.6% earnings gain, produced a 21.3% increase in sales and also managed to maintain its margins.

G. C. Murphy's earnings decline of 37.2% for the quarter is largely the result of an aborted employee buyout proposal that was scrapped with the acceptance of the Ames offer. A spokesman explained that $2.4 million in fees and expenses for the earlier proposal were charged to first quarter earnings.

Toys "R" Us chairman and ceo Charles Lazarus credits the chain's 26.4% earnings gain to the stores' ability to increase sales productivity and control costs. He notes that operating expenses as a percentage of sales were reduced by more than 1% compared to last year's first quarter.

The Limited and Edison Bros. results in earnings were almost exactly opposite, with The Limited producing a 57% gain in its first quarter rate of earnings, while Edison Bros.'s declined 61%.

Both Syms and Clothes Time showed strong earnings gains in the apparel market. Clothes Time reported a gain of 190.2%.

First quarter profits in a slowdown

Chain	'84 (000 omitted)	'85 (000 omitted)	% change
Penney	$ 69,000	$ 50,000	– 27.0
Sears[2,4]	25,900	8,300	– 68.0
Ward	(3,000)	(2,000)	—
Subtotal	**91,900**	**56,300**	**– 39.0**
K mart	58,000	58,500	+ 0.8
G. C. Murphy	2,233	1,401	– 37.2
Rose's	3,693	3,303	– 10.6
SCOA (Hills)	1,126	(475)	– 142.2
Wal-Mart	43,643	51,690	+ 18.4
Woolworth[1,2]	4,000	6,000	+ 50.0
Zayre	10,601	14,056	+ 32.6
Subtotal	**123,296**	**134,475**	**+ 9.0**
Allied	14,732	17,217	+ 17.0
Associated Dry Goods	5,074	9,380	+ 85.0
Carter Hawley Hale[1]	7,300	11,600	+ 59.0
Dayton Hudson	28,400	33,451	+ 18.0
Federated	35,810	43,400	+ 21.2
May Co.	27,500	33,500	+ 21.8
Mercantile	14,309	17,596	+ 23.0
Subtotal	**133,125**	**166,144**	**+ 25.0**
Oshman's	59	(640)	–1,184.7
Toys "R" Us	9,637	12,179	+ 26.4
Subtotal	**9,696**	**11,539**	**+ 19.0**
The Gap	667	(1,117)	– 267.5
The Limited	13,605	21,346	+ 57.0
Edison Bros.[3]	10,000	3,900	– 61.0
Subtotal	**24,272**	**24,129**	**– 0.5**
Syms	1,341	1,906	+ 42.1
Clothes Time	471	1,367	+ 190.2
Subtotal	**1,812**	**3,273**	**+ 80.6**
Total	**384,101**	**395,860**	**+ 3.1**

[1]Continuing operations only. [2]Consolidated operations only. [3]Excludes unusual items. [4]U.S. merchandising only. ( ) indicates loss. Source: *Chain Store Age* research

New cash will help set the Pace

Pace Membership Warehouse, one of the few privately owned warehouse club operators rapidly expanding, wants to go public to generate cash for an even more aggressive growth.

Pace, based in Denver, hopes to raise about $25 million from the sale of some two million shares of stock. The cash would be used to fund eight to 10 new warehouses this year. Each cash and carry warehouse of the type Pace operates generally costs between $6 million and $8 million to get up and running.

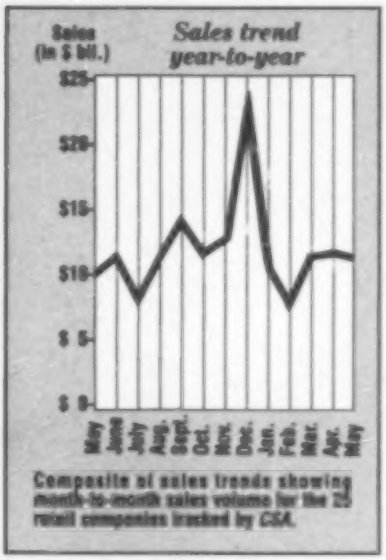
Pace already operates six warehouses in Denver, Atlanta, Tampa/St. Petersburg and Charlotte, N.C. New markets on tap for this year include Colorado Springs, Baltimore/Washington and Omaha.

As part of its expansion Pace is venturing into creating its own brand of private label products in lawn and garbage bags, sandwich bags, food wipes and charcoal.

Consumer doubt shows in slow sales

"Consumer expectations, which have an impressive record in calling major turns in the economy, have lost considerable ground since the beginning of this year," says Fabian Linden, executive director of the New York-based Conference Board's Consumer Research Center. "The latest message from the consumer is less than reassuring."

According to Conference Board research, consumer plans to buy major appliances, ranging from refrigerators and washing machines to TV sets and ranges, slid to 22.3% in May, down from 25.9% in April. Home buying plans fell to 2.9%, compared to 3.7% the month before.



Composite of sales trends showing month-to-month sales volume for the 25 retail companies tracked by *CSA*.

For the 26 chains tracked by *Chain Stores Age*, consumer apprehension was reflected in disappointing sales. Volume for the month of May nosed up a modest 6.3%. Sales for the four-month-old fiscal year edged up 8.6%.

The big losers for the month were the Big 3 catalog chains. Sears volume dropped 1.3% from last year's figures, and its year-to-date sales are hovering only a percentage point above 1984. J. C. Penney volume dipped 1.8% for the month. Sales at comparable stores decreased 2.7%. Montgomery Ward volume dropped 4.7% in May and now stands 0.2% below last year's four-month totals.

At Federated Department Stores, Richway and Gold Circle combined to show a 5.3% decrease from figures for the same month a year ago. Federated's department store divisions posted a 5.8% monthly increase.

The opposite relationship held true for May Co., which saw its Venture discount division posting an 11.3% sales jump, while its department stores gained a more modest 1.6%.

Dayton Hudson recorded an 11% increase in May for its department stores, 19% at Mervyn's and 7% at Target. According to chairman/ceo Kenneth A. Macke, May sales were below expectations at all segments except Target.

K mart posted May sales up 12.2%, but same-store results gained only 3.2%.

Among the specialists, Tandy continued on its recent rebound. U.S. retail operations recorded a 13% gain in May, with same-store results increasing 10%. Richmond, Va.-based Circuit City Stores posted a 45% monthly gain with comparable store results jumping 26%.

The Big 3 post sales drops

Major chains	% change	May Sales* 1985	May Sales* 1984	Stores 1985	Stores 1984	4-mo. sales* 1985	4-mo. sales* 1984	% change
Sears[1,2]	– 1.3	1,752,500	1,775,700	796	811	6,943,900	6,880,400	+ 0.9
Penney[2]	– 1.8	864,000	880,000	1,992	2,015	3,453,000	3,404,000	+ 1.4
Ward[1,2]	– 4.7	431,700	453,200	364	367	1,672,500	1,675,400	– 0.2
Federated[3]	+ 4.6	582,100	556,500	468	424	2,347,400	2,197,900	+ 6.8
Dayton Hudson[4]	+11.2	599,700	539,400	1,145	1,101	2,362,000	2,052,300	+15.1
May Dept. Stores	+ 5.6	464,200	344,700	1,926	1,635	1,454,100	1,304,000	+11.5
R. H. Macy	+ 6.4	323,900	304,500	96	93	1,280,000	1,210,000	+ 5.3
Associated Dry Goods	+ 5.6	332,800	315,100	340	325	1,261,000	1,128,000	+11.8
Allied Stores	+ 2.0	312,400	306,400	616	581	1,192,700	1,147,900	+ 3.9
Carter Hawley Hale[5]	+ 6.7	264,500	247,800	281	252	1,116,300	1,008,200	+10.7
Mercantile	+10.9	134,975	121,717	79	78	531,186	476,700	+11.4
K mart[6]	+12.2	1,803,300	1,607,300	2,172	2,157	6,799,700	5,921,100	+14.8
Wal-Mart	+30.1	653,000	502,000	776	674	2,309,000	1,737,000	+32.9
Woolworth[2]	+ 8.6	271,400	249,900	N/A	N/A	1,082,700	993,300	+ 9.0
Household Merch.[1,2]	+ 3.8	418,236	402,928	3,694	3,753	1,713,100	1,642,115	+ 4.3
T.G. & Y.	+ 1.0	162,419	160,806	748	776	627,339	625,049	+ 0.4
Zayre[4]	+17.6	267,600	227,500	874	785	1,063,900	886,200	+20.1
Bradlees	+ 5.0	106,000	101,000	136	128	388,000	362,000	+ 7.2
Rose's	+ 6.9	97,169	90,895	197	191	309,575	278,944	+11.0
Murphy	– 1.2	67,971	68,770	388	399	270,625	271,224	N.C.
Jamesway	+11.0	39,580	35,671	85	78	143,062	121,732	+17.5
Heck's	–11.4	32,900	37,100	126	122	147,800	140,890	+ 5.0
Melville	+11.5	343,400	308,100	5,387	5,757	1,398,200	1,257,455	+11.2
Tandy	+ 8.0	216,260	200,195	N/A	N/A	865,528	829,102	+ 4.4
Edison Bros.	– 1.3	102,300	103,600	N/A	N/A	317,200	344,200	– 7.8
The Gap	+15.0	38,300	33,300	629	576	148,900	131,500	+13.2
Circuit City	+45.1	49,200	33,900	96	N/A	162,400	119,200	+36.2
Totals & Averages	+ 6.3	10,469,391	9,847,176	—	—	40,733,776	37,520,672	+ 8.6

'000 omitted. N.C. = no change. N/A = not available.
[1]Store number for full-line outlets only. [2]Includes 2,766 franchise stores (vs. 2,906 a year ago). [3]Includes T.G. & Y. sales. [4]Includes 291 Zayre stores (vs. 276 a year ago), 415 Hit or Miss stores (vs. 377) and 168 T. J. Maxx stores (vs. 139). [5]Excludes supermarket sales. [6]Store count is for K mart stores only. [7]Continuing operations only. [8]Domestic operations only.

Moody's reviews $1.2 bil. Ward debt

Prompted by Mobil's announcement of $500 million of after-tax write-offs at Montgomery Ward in 1985, Moody's Investors Service has placed the long-term ratings of Montgomery Ward & Co. and Montgomery Ward Credit Co. under review for possible downgrades.

Montgomery Ward Credit's Prime-2 rating for commercial paper is also under review. Not affected are the Aa3 long-term rating and Prime-1 rating of Mobil Corp.

Of particular concern is the future of the support agreement between Mobil and Ward. The ratings, which affect approximately $1.2 billion in long-term debt, include those on the sinking fund debentures and industrial revenue bonds of Montgomery Ward, and the debentures, sinking fund debenture notes, senior subordinated notes and medium term notes of Montgomery Ward Credit.

HOME COMPUTER MARKET ALIVE, BUT KICKING

A recent *Chain Store Age/Better Homes and Gardens* survey shows printers, floppy discs and color monitors to be consumers' most desired computer products.

***In the poll, games and education** top the list for home computer owners.*

Back in the bottom of the closet, right next to the eight-track tape player and the quadraphonic stereo, sits the family's home computer—unused and collecting dust. Sure, it was fun for a while. The children played games at first, but then lost interest. Mom tried keeping her recipe file, but index cards proved easier. Dad was going to balance his checkbook, but he never got around to it.

Sound familiar? It ought to. The entrenched folk lore of home computers says that many machines sold in the last five years are now no more than expensive, and forgotten, dust-collectors. The truth is that they are not.

According to *Chain Store Age/ Better Homes and Gardens* research, over 3 out of 4 home computers are used at least once a week. Thirty-five per cent of computer owners in the 421 member, upscale consumer panel report that they use their computer daily. Another 30% say they make use of their home machine at least three times a week.

Though the gold rush days of the home computer industry are over (sales of machines designed for home use actually declined 4% last year to 4.8 million units), the much publicized industry shakeout has panicked vendors and venture capitalists more than it has consumers.

Nineteen per cent of the *CSA/BH&G* panel already own a computer, and another 10.2% report that they intend to buy a home machine in the next 12 months. Intent-to-buy is highest among those in the 18-34 age group and increases with both income and household size.

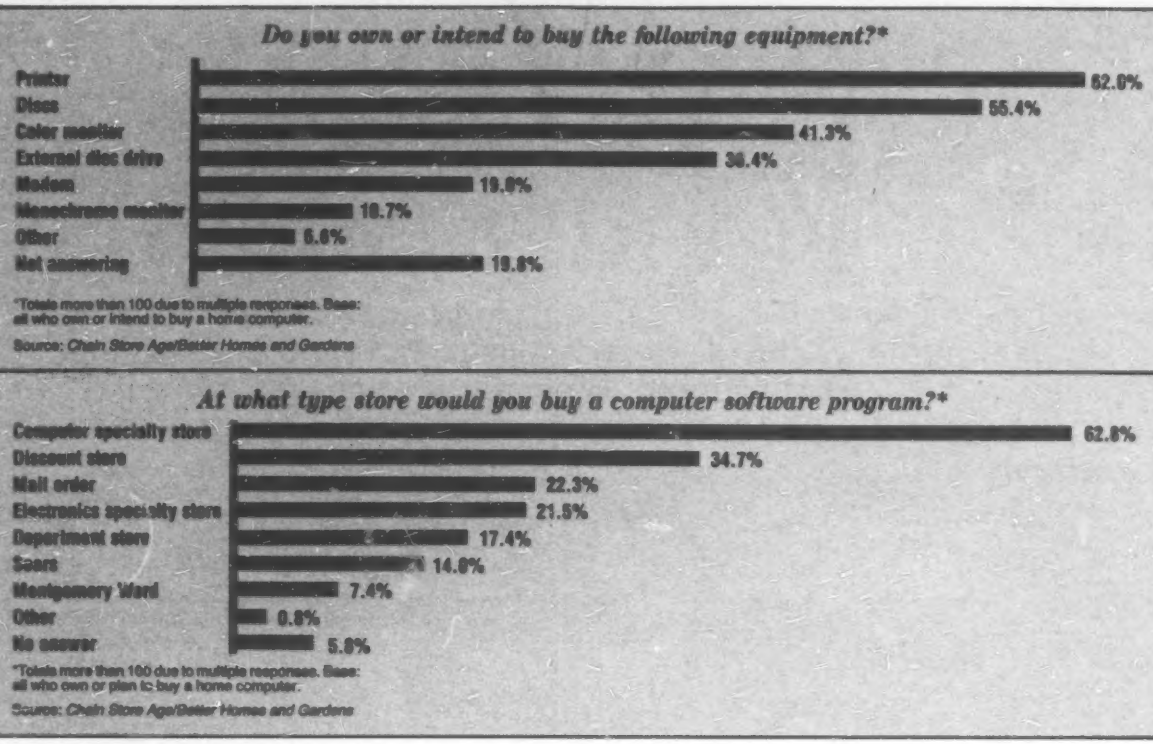
With 18 million personal computers already in use, software publishers can continue to profit from that market, despite its slowing growth rate. On the average, computer owners in the *CSA/BH&G* survey already have 4.3 software programs. And among those who already own or intend to buy a home machine, the consumer panel members expect to buy another 3.9 software titles in the next year.

When asked how they will use their home computers, education and games top the list, cited by 66.9% of those who currently own or intend to buy in the next year. Record keeping ranks third, answered by 62.8%, followed by word processing (52.1%) and financial planning (38.8%).

Interest in buying educational software, according to the study, increases with both household income and family size. Three out of 4 families with children who expect to buy software this year say that they will purchase educational programs. The same number intend to buy games software, though unlike educational programs, interest in purchasing game titles decreases in higher income families.

Record keeping, word processing and financial planning software buying intention increases as household income rises, but decreases in larger families. Those with children express less interest than the average in buying software in these categories.

Still a mass market: When asked at what type store they would buy a computer program, the *CSA/BH&G* consumer panel named computer specialty stores at the top of the list (see chart). Still, discount stores were mentioned as a likely choice for software by more than 1 in 3 respondents (34.7%). Department stores received a 17.4% re-



sponse, while Sears and Montgomery Ward garnered 14% and 7.4%, respectively.

Even though the general merchandiser's share of the software market has slipped in the last year, the industry itself continues to grow. In 1984, according to the Electronics Industries Association (EIA), more than 58 million software titles were shipped to dealers. This year the EIA projects that number will grow nearly 30% to 75 million units.

Consumers on the *CSA/BH&G* panel who choose general merchandisers for software are on the average younger, less affluent, have larger families with more children than those who pick computer specialty stores or electronics specialists.

The study implies that the most profitable niche in the software market for discounters, department stores and the catalog chains will continue to be low end games and educational titles, leaving the higher priced and more sophisticated software to the specialists.

Peripherals: Printers, according to the survey, are the most sought after home computer peripheral. In the poll 62% of present or potential computer owners report that they either already own a printer or intend to buy one in the next year.

Interest in printers increases slightly with the age of the survey respondent, but income proves a stronger determinant in who owns or wants a printer. Among those with incomes above $25,000, 63.1% report interest in printers. In the group with family incomes in excess of $50,000 the number interested increases to 70.5%.

***Consumers polled choose** color over monochrome monitors by 4 to 1.*

Floppy discs rank first in the poll as the computer accessory most used and with the highest buying intention. Over half (55.4%) of the survey's current/potential computer owners say that they already use discs or expect to buy them in the next 12 months. This compares to the 36.4% of the consumer panel that says they own or wish to own an external disc drive.

When it comes to monitors, the *CSA/BH&G* consumer panel chooses color over monochrome monitors by nearly a 4 to 1 margin. In the survey 41.3% of computer owners report that they own or expect to buy a color monitor for their home computer. This compares to the 10.7% that say they already have or will purchase a monochrome monitor in the next year.

Modems find 19% of present or potential home computer owners in the survey reporting that they are already in use or will be purchased in the next 12 months. Unlike other computer products in the study, however, interest in modems is highest in smaller families with no children. ■